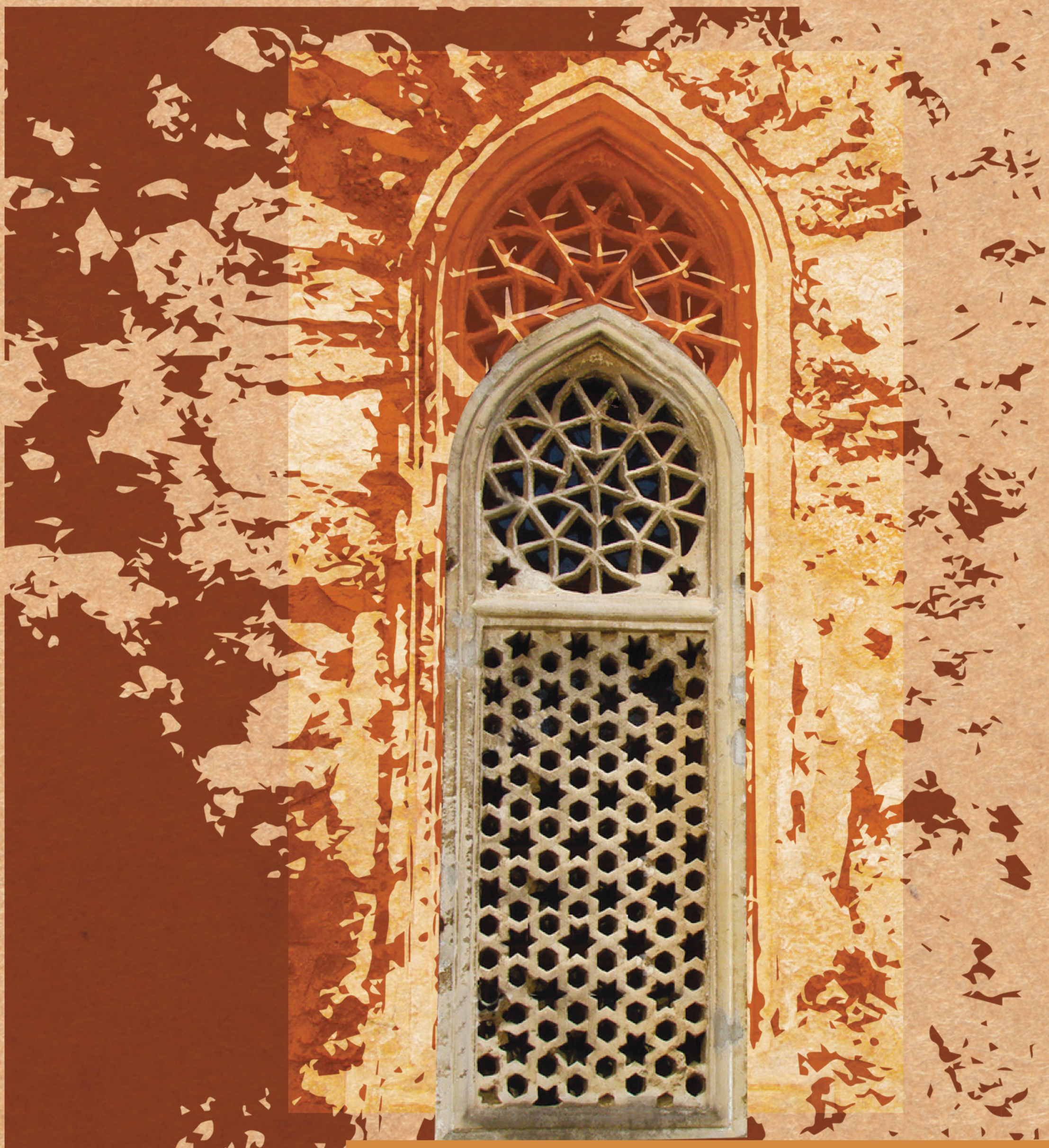
بنك الإسكان العماني ش.م.ع.م.

OMAN HOUSING BANK S.A.O.C.



PIONEERING INTEGRATED HOUSING

ANNUAL REPORT

2018

بنك الإسكان العماني ش.م.ع.م

OMAN HOUSING BANK S.A.O.C.

PIONEERING INTEGRATED HOUSING

ANNUAL REPORT 2018

"The construction of the modern state, which we undertook to establish from the first moment of the blessed renaissance, necessitated the exertion of great efforts in the field of establishing the infrastructure that is the foundation of the comprehensive development and its first focus and providing this structure throughout the Sultanate. The expansion of the Omani arena and the establishment of many economic, commercial and industrial projects and educational, cultural, health and social facilities".

His Majesty's speech at the annual meeting of the Council of Oman in 2011

HIS MAJESTY SULTAN QABOOS BIN SAID

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Vision

Pioneering Integrated Housing.

Mission

The Bank seeks to be pioneer of housing loans and construction progresses to contribute in the economic development of the Sultanate of Oman, distinguishing by the services provided to its customers, specially to the low and medium income Omani citizens, achieving the objectives of the shareholders, and interesting in the development of human capital through an efficient banking, attractive and motivated work environment.

"Board of Directors' Report for Year 2018"

Dear Shareholders

After Compliments

I am glad to welcome you, and pleased to present to you, on my own behalf and on behalf of my colleagues the members of the Board of Directors, the Annual Report for the Bank's annual results, achievements and financial statements for the year ended 31 /12/ 2018.

Since the establishment of the bank, it has been working on developing its business and services and strengthening its leadership in the housing sector. In this context, the Board is pleased to inform you that the Bank has been able to achieve the objectives set in its budget for the said year both in lending and in enhancing the financial position of the Bank. Several achievements were also made during the year, as described in the report.

Lending Activity

During the year, the Bank continued to provide subsidized loans to citizens , in this regard, let me thank our esteemed Government for its continuous support to the bank . Following are the main achievements:

Rashad Ahmed Mohammed Omair Al Hinai
Chairman of Board of Directors

The number of loans approved is (1841) loans with amount of R.O (80) million until the end of 2018. The Bank also sought to deliver its services to various governorates of the Sultanate, especially areas outside Muscat Governorate. The loans granted to citizens outside Muscat Governorate are amounted to(1458)loans with amount of R.O(63)million representing (78,7%) of the total lending .

The following table shows the loans granted with a subsidized fee, distributed as per the Bank's branches spread throughout the Sultanate's governorates between year 2018 and 2017 .

Branches	subsidized loans approved during the year 2018				subsidized loans approved during the year 2017			
	No	%	Amount (R.O)	%	No	%	Amount(R.O)	%
Main Office	383	20,8	17018000	20,8	316	18,1	14954400	19,4
Salalah	66	3,5	3438900	3,5	66	3,8	3618100	4,9
Sohar	230	12,5	9456200	12,5	246	14	9524600	12.3
Sur	145	7.9	6785000	7,9	127	7,3	5669800	7,3
Nizwa	275	14,9	12261900	14,9	286	16.3	12977000	16,8
Khasab	31	1,7	1591300	1,7	30	1,7	1409500	1,8
Buraimi	130	7,1	5669300	7.1	112	6.4	4862500	6,3
Rustaq	449	24,4	18265400	24.4	408	23,3	17730300	22.9
Ibra	132	7,2	5514000	7.2	160	9,1	6422600	8,3
Total	1841	100%	80000000	100%	1751	100%	77168800	100%

The total number of loans granted by the Bank to the citizens since its inception in 1977 until the end of 2018 reached (44288) with total amount of R.O (1,08) Billion, of them 17369 loan for the Governorate of Muscat with amount of R.O (386) million representing (39,2%) of the total number of loans and (35,5%) of its value .

The number of subsidized loans granted to citizens in areas outside the Governorate of Muscat has reached (26919) loan with amount of R.O (701) million i.e (60,8 /%)of the total number of loans granted and (64.5%) of its value as per following table :

Branches	subsidized loans approved during the period from the date of inception until 31/12/2018			
	No	%	Amount (R.O)	%
Main Office	17369	39,2	386.162.591	35,5
Salalah	4775	10,8	97.885.751	9
Sohar	4354	9,8	107.017.242	9,8
Sur	2889	6,5	70.481.496	6.5
Nizwa	4800	10,8	132.249.952	12.2
Khasab	801	1,8	20.491.100	1.9
Buraimi	1618	3,7	47.617.555	4.4
Rustaq	5393	12,2	164.414.600	15.1
Ibra	2289	5,2	61.047.700	5.6
Total	**44288**	**100%**	**1.087.367.987**	**100%**

Due to the strong demand for subsidized borrowing - following the approval of the new structure of banking and administrative services - the Bank has decided to allocate all its resources available for borrowing to be limited to subsidized loans only.

Financial Results

In terms of financial results and through reviewing the figures of the balance sheet for the fiscal year ended 31 \ 12 \ 2018, it is clear that the Bank has achieved positive results by recording good growth rates in most financial indicators. Total assets of the Bank increased in 2018 to reach RO(570.2) million compared with amount of RO (502.2)million at the end of 2017 it increased by(13,5%).

The growth in assets was mainly driven by the rise in the housing loan portfolio as the total loan portfolio increased on 31/12/2018 to reach R.O(539,5) million comparing with R.O (476,2) million at the end of last year by rate of (13,3%.)

The Bank achieved a net profit of RO (13.9) million, with increase by (5,8%) comparing with the net profit of 2017 which is RO(13.2) million. .Total shareholders' equity also increased to reach RO (267) million comparing with RO (250,6) million, increased by (6,5%) . This increase is due to the increase in capital, reserves and retained earnings.

The following table shows the status of the most important financial indicators during the past five years, from 2014 to 2018:

(Amounts in millions of Omani Rials)

Particulars	2014	2015	2016	2017	2018
Net profit	14,5	11,3	13,8	13,2	13,9
Total assets	347,5	404,9	446,8	502,1	570.2
Total liabilities	197,1	175,6	205,3	250.6	303.3
Total net loans	334,6	373,6	420,8	476,2	539,5
Total shareholders' equity	150,4	229.3	241.5	250,6	267

The Bank focuses on developing its assets while maintaining the quality and durability of assets to enhance the financial position of the Bank so that it can achieve its objectives effectively. The Board of Directors proposes to distribute the net profit of 2017 to the shareholders as follows:

Net profit for year 2018

(Amounts in millions of Omani Rials)

Net profit for the year	13,938
Net profit distributions Amount Transferred to the legal reserve (10% of net profit)	1,394
Amount Transferred to the special reserve	2,509
Distribution of cash dividends to the shareholders (5% of paid capital)	5,000
Amount transferred to retained earnings	5,035
Total Net profit for the year	13,938

In terms of training and human resources development, the Bank has organized (28) training sessions in various fields during the year inside and outside the Sultanate. The number of participants reached (222 participants, these sessions will enhance the capabilities of the staff so that they can perform the duties and responsibilities on the required basis. The percentage of Omanis reached(97%) of total number of employees in the Bank. So by achieving this percentage the Bank is at the forefront of the banks operating in the Sultanate in this regard.

The Board of Directors is looking forward to further achievements in various areas of the Bank's operations through the Financial and Strategic Plan for the next 10 years, in line with the Government's development plans and the Bank's mission to provide suitable housing for Omani families in need of housing.

In conclusion, the Board of Directors of the Bank extends its sincere thanks and gratitude to His Majesty Sultan Qaboos Bin Said (May Allah protect him) on his directives and generous patronage of the bank and thanks go to the esteemed government for the continuous support provided to the Bank to enable it to continue providing its services to all citizens easily.

The Board of Directors also extends its sincere thanks to the Ministry of Finance, the Central Bank of Oman and all ministries, institutions and all public and private organizations for their sincere and honest cooperation with the Bank in order to carry out its duties and responsibilities. Also we thanks and appreciate the staff of the Bank for their dedication, sincerity and efforts that they have made in order to serve this institution and promote it.

May God help us and you to provide more service to our beloved country Oman under the wise leadership of His Majesty Sultan Qaboos bin Said (May Allah protect him), and we pray to God to grant His Majesty good health, wellness and longevity and the Omani people with well-being and prosperity.

Yours Faithfully

Rashad Ahmed Mohammed Omair Al Hinai

Chairman of Board of Directors

General Manager's speech

Adnan Haider Darwish
General Manager
Secretary of the Board of Directors

After Compliments,

Based on the Bank's pioneering role in supporting the housing and construction movement in the Sultanate, the Bank has continued its successful career towards superiority and achieving the targeted growth by granting loans at a growing pace to meet the aspirations of the citizens and achieve the lofty goals for which the Bank was established, the most important of which is the provision of easy loans to citizens

And where as satisfying customers and meeting their needs is our goal that the Bank seeks to maximize it's potential to develop its operations ensuring the achievement of this goal and the advanced e-banking system, which has been launched, is contributing to a high level of advanced high-speed electronic services.

While continuing to progress our march, we will continue to maintain our professional values. Each of these values has an impact on our behaviour and on the decisions we make and contribute positively to our corporate culture and the success of our business.

We believe that our employees are the most important assets of our business and we strive to improve their skills and professional abilities by providing the best working environment that enables them to take advantage of their full potential and work and to qualified and train them to enable them to perform their work effectively.

on level of the Bank's operating results, the several financial indicators have shown an increasing growth that reflects the proper investment of funds, where as the Bank's assets developed by about (13,5%) in 2017. Loans approved by the bank have reached during this year amounted to RO 80 million, also risen as the borrowing portfolio to about (539,5) million with a growth rate of about (13,3%) than the situation at the end of 2017.

Loans received during the year amounted to more than (3,620) applications amounting to about RO (167) million indicating that the demand for borrowing is rising from year to year.

Besides that, the Bank continued to control the troubled loans portfolio which is at the lowest levels due to the considerable efforts made in this regard, also the capital adequacy ratio has been further enhanced to exceed surveillance requirements which is more than 80% , which indicates the strength of the financial position of the bank, the bank also achieved net profit this year of RO (13,9) millions compared to 2017.

The Bank's role has grown over the past few years, which is one of the reliable sources of development drive, considering that the housing sector plays a pivotal role in the development of all other sectors. The Bank has granted over RO 44,000 loans at a total value of approximately 1,1 billion riyals.

The banking market is now more extensive and more competitive, which requires the Bank to continue to develop its business and performance level and to implement its strategic and financial plans in-order to enabling it to maintain its customers and enhance their confidence in it this requires continued hard work and maintaining growing and distinct growth rates and solidify its own impression in a banking world characterized by competition and continuous development.

The results achieved by the Bank are a culmination of sincere efforts, improvements and development in all its activities and we promise to maintain that in order to enhance the sustainability of outstanding performance and robust banking performance.

The Bank gives a particular importance to the application of best practices of corporate governance because of its importance in enhancing the bank's performance and improving its risk management system and in line with the requirements of Control bodies and in accordance with updates in the banking industry, Where corporate governance is an important pillar in the Bank's working relationships between the Board of Directors and the Bank's executive management and shareholders of the Bank. The Bank applies the standards of transparency and disclosure in its operations in accordance with the requirements of the Corporate Governance Rules and the best banking standards to reflect positively on all aspects of the Bank's work.

The Bank has also continued the adherence of Methodologies for identification and measurement to the requirements for identifying, measuring, mitigating and controlling risks and also identifying the levels of acceptable risks as well as updating risk management policies and procedures to keep up with developments and to enhance the effectiveness of risk management.

Finally... I would like to express my thanks and appreciation to the rational Government for its continued support to the Bank to enable it to continue to provide services to its citizens.

As well as all the thanks to His Excellency the Chairman of the Board of Directors and all members of the Board of Directors for their guidance and continuous follow-up to the performance of the Bank in order to achieve the objectives that were established for it and to our customers trust in us.

I would also like to thank all the employees of this institution at all levels and locations for their efforts, sincerity and their roles in the success and prosperity of the Bank.

We ask Allah for reward and reconciliation for all.

Legal Disclosure under Basel II Pillar III 2018

1. Risk Management

The Board of Directors plays an important role in overall supervision of risk management processes to ensure that risk management requirements were properly implemented and that the Bank is operating within the prescribed limits.

The Board approves risk management policies and sets acceptable risk limits, as well as adopting the capital adequacy assessment process.

The Board has set up a committee (Finance and Risk Management) to assist the Board in proposing and developing risk management policies, proposing acceptable levels of risk, establishing methods for identifying, measuring and controlling risks, monitoring the compliance of the Bank's units with risk standards and limits, and reviewing the efficiency and effectiveness of the Risk Management Department operations

2. Disclosure Policy

The Bank has an official policy derived from Basel II - Disclosure requirements under Pillar III - approved by the Board of Directors in line with the requirements of the Central Bank of Oman.

3. Field of application

The Bank operates through its branch network in Oman and the subsequent data on the capital structure is consolidated for the operations of all branches of the Bank. The Bank has no subsidiaries and is not part of any group.

4. Capital structure

The Bank's regulatory capital is divided into (3) levels:

* **Level 1:** Basic capital, includes:

Paid-up capital, statutory reserve, special reserve, retained earnings.

There are no innovative capital instruments in the capital. The paid-up share capital represents (92,375) shares, value of each RO 1. The Bank deducts 10% of its annual profits in favour of the statutory reserve. The deduction shall not be suspended unless the balance of this account equals one third of the capital. This reserve is not available for distribution and the Ordinary General Assembly may decide to create optional reserve accounts not exceeding 20% of the net profit for the year after deducting the statutory reserve. The purpose of the retained earnings is to strengthen the financial position of the Bank and to meet any unforeseen circumstances.

* **Level 2:** Additional capital includes:

General provision for loan losses (not exceeding 1.25%) of assets weighted by credit risk without risk weighted assets.

The ECL in stage (1) is 100% and in the stage (2) is 80% (not exceeding 1.25%) of assets weighted by credit risk without risk weighted assets.

* **Level (3):** Short-term loan to meet market risk:

The Bank does not currently have level (3) capital.

The Bank's capital structure is as follows:

Composition of the regulatory capital at 31 December 2018	RO (In thousands)
Tier (1) Basic capital:	
Paid - up capital	92,375
Legal reserve	22,717
Special Reserve	60,515
Retained earnings	69,169
Total of level (1)	**244,776**
Level (2) Additional Capital: -	841
Provisions for loan losses	841
Total of Level (2)	245,617

5. Capital adequacy

The Bank's capital adequacy is computed in accordance with the Basel II guidelines along with the Central Bank of Oman guidelines, using the standardized methodology for calculating credit risk and market, if any, with the application of the simple methodology for the inclusion of collateral. Moody's rating is also taken to calculate the risk of claims of the Banks and other financial institutions.

The Bank has a policy of maintaining a sufficient and strong capital base commensurate with the nature of its long-term lending activity to meet the risk of unexpected losses or difficulties. Despite the strength of the Bank's capital base which enables it to cope with various conditions and uncertainties, however the Board, in order to be more cautious to response to the developments, decided to increase the capital adequacy ratio at a rate of 2%, higher than the targeted regulatory level set by the Central Bank of Oman (12.875%), including a reserve ratio for capital preservation. The Bank's official capital adequacy ratio is (13%), as it is evident from the following data, the actual capital adequacy ratio stood at the end of the year (80.39%)

The quantitative calculation of the Bank's capital adequacy ratio is as follows:

Details Amounts in thousands Riyal Omani	Total balances (Book value)	Net balances (Book value)*	Risk Weighted Assets
On-balance sheet items	575,951	571,166	212,728
Off-balance sheet items	27,670	6,754	2,364
Total	603,621	577,920	215,092
CET 1 Capital			244,776
Additional Tier I			-
Total Tier I capital			244,776
Tier II Capital			841
Total Regulatory Capital			245,617
Capital requirements for credit risk		215,092	27,693
Capital requirements for market risk		49,131	6,326
Capital requirements for operational risk		41,304	5,318
Total Capital Risk		305,527	39,337
Capital Adequacy Ratio – First Level			80.12%
Capital Adequacy Ratio - Gross			80.39%

* Net after deduction of provisions, interest saved and eligible guarantees.

6. Risks and reserves taken or (Precautions)

a. 6/1 Credit risk:

Credit risk arises from all products and services when counterparties fail to meet payment obligations in accordance with the terms and conditions of the contract. Although credit granted by the Bank is housing loans to citizens and has real estate and geographically limited collateral within the Sultanate of Oman, however risks may arise in some cases by not covering the value of these guarantees to the full obligations owed by the customer. Approvals for the granting of credit by the executive management within specific ceilings, standards, prudent practices and authority approved by the Board of Directors, in order to minimize potential losses and keep exposure to credit risk within low limits and acceptable rates.

The Bank follows the Standardized Approach for the calculation of credit assets risk-weighted at a rate (35%) of the housing loans subsidized by the Government of the Sultanate of Oman, at a rate of (100%) to the other, also the Bank determine the amount of potential credit following the classification due to credit losses under the circulation of the Central Bank of Oman (BM977) dated 25 September 2004, taking into account the market value of real estate guarantees by (50%).

Given that credit granted by the Bank is limited to one type and within a single geographical area; quantitative disclosure is limited to the following:

RO'000

Type of credit	Average at current period	Current status as on 31/12/2018
Housing loans for citizens subsidized by the Government of the Sultanate of Oman	490,892	523,892
Other housing loans to citizens (un subsidized)	16,949	15,625
Total	507,841	539,517

Total Loan Movements: CBO

	Details	RO'000					
		Regular loan		Irregular loans			
		Standard	Special Mention	Substandard	Doubtful	Loss	Total
1	Opening balance	482,981	222	1,214	864	1,875	487,156
2	Migration / change (+/-)	(2,442)	287	(353)	884	1,624	-
3	New loans	80,474	80	91	362	131	81,138
4	Recovery of loans	(22,803)	(168)	(67)	(29)	(35)	(23,102)
5	Loans Written off	-	-	-	-	-	-
6	Closing balance	538,210	421	885	2,081	3,595	545,192
7	Total provisions	10,764	12	220	536	964	12,496

Total Loan Movements: IFRS 9

	Details	RO'000			
		Stage 1	Stage 2	Stage 3	Total
1	Opening balance	482,981	222	3,953	497,156
2	Migration / change (+/-)	(2,442)	287	2,155	-
3	New loans	80,474	80	584	81,138
4	Recovery of loans	(22,803)	(168)	(131)	(23,102)
5	Loans Written off	-	-	-	-
6	Closing balance	538,210	421	6,561	545,192
7	Total provisions	647	243	4,371	5,261

b. 6/2 Market risk:

Market risk is the risk of changes in the value of securities or transactions due to movements in market factors.

The Bank's budget items currently include any assets or liabilities that are subject to change at the rate of exchange (KDD loan in Kuwaiti Dinars). The policy is to hedge all transactions in Riyal Omani or US Dollar with a fixed rate against Riyal Omani. Interest rate risk may arise directly in the event of an increase in interest rates on short-term deposits or medium-term loans, while interest rates on lending to customers are fixed, and the bank tries to follow the policy of financing through long-term loans to avoid these risks or government loans at a fixed rate. The Bank's final accounts including a distribution of assets and liabilities over a number of predetermined time bands to indicate the sensitivity gap to interest rates.

7. Risks and reserves taken or (Precautions

a. 6/3: Liquidity risk:

Liquidity risk is the risk of non-availability of enough money in the bank to meet its obligations when due and caused general liquidity risk from the incompatibility of inflows and outflows of funds, the Bank follows a prudent policy in managing liquidity by maintaining arrangements for the provision of cash ready to meet short-term obligations. Liquidity management is managed by reducing the gap between requirements of the assets and liabilities wherever possible and by borrowing medium and long term where necessary to ensure that liquidity is always sufficient to meet the Bank's obligations as due. The Bank's final accounts include an analysis of the asset and liability maturities on a number of predetermined time bands to demonstrate the liquidity gap.

b. 6/4: Operational risks:

Operational risk is the risk of loss resulting from the inadequacy or failure of internal processes, employees, systems or due to external factors, and others arising from legal and regulatory requirements. The Bank follows the basic indicator method of measurement, which requires taking 15% of income for last three years to determine risk capital for operational transactions.

Basel III common disclosures are included in Page no 7 to 15.

Planning for Business Continuity:

Managing the continuity of the work is implementation and management of preventive measures, planning and preparation to ensure that the Bank can continue to work after an emergency or malfunctioning operation. The Bank ensures that its systems and procedures are viable during situations where work is likely to stop. The Bank is continuously improving its current plans by implementing an active work plan to ensure continuity of procedures and systems with flexibility and readiness to meet emergency requirements.
The business continuity system management committee was charged with responsibility of formulating, adopting, modifying, testing and maintaining the bank's continuity plans. The committee reviews and agrees on the strategic information on business continuity assessment and planning, ensuring continuity of business activity, and that the responsibility for planning and maintenance is understood across all fields of work.

In order to strengthen the business continuity plan framework, the Bank has:

- Conducted a Training sessions in the continuity of work for the Bank's staff in order to enhance the concepts and mechanisms of work for continuity of work.
- Conducted evacuation training at Bank headquarters in December 2018.

pwc

Independent auditor's report to the shareholders of Oman Housing Bank SAOC

Report on the audit of financial statements

Our opinion

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

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The management is responsible for the other information. The other information, which we obtained prior to the date of our auditor's report comprises of board of directors report, director general's speech and statutory disclosure under Basel II – Pillar III and Basel III Framework, but does not include the financial statements and our auditor's report thereon. The complete annual report which is not yet received is expected to be made available to us after that date.

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

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

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

When we read the complete annual report which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Further, we report that the financial statements have been prepared and comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended.

Muscat, Sultanate of Oman
31 March 2019

Statement Of Financial Position
At 31 December 2018

	Note	2018 RO'000	2017 RO'000
ASSETS			
Cash and bank balances	5	11,561	8,076
Mortgage loan accounts	6	539,517	476,163
Due from Government of Oman – share capital	26	7,616	10,675
Other assets	8	6,162	2,378
Property and equipment	7	5,383	4,874
Total assets		570,239	502,166
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	9	41,000	32,004
Customers' deposits	10	94,508	51,589
Other liabilities	11	14,815	13,277
Loan from the Arab Fund for Economic and Social Development	12	49,131	50,831
Loans from Government of Oman	13	103,830	103,830
Total liabilities		303,284	251,531
EQUITY			
Share capital	14	100,000	100,000
Legal reserve	15	22,717	21,323
Special reserve	16	60,515	58,006
Impairment reserve	17	7,235	-
Revaluation reserve	18,7	2,319	2,319
Retained earnings		74,169	68,987
Total equity		266,955	250,635
Total liabilities and equity		570,239	502,166
Mortgage loan commitments	25	27,670	37,646

The financial statements were approved by the Board of Directors and authorised for issue on 31 March 2019 in accordance with the resolution of the Board of Directors.

H.E. Rashad Ahmed Mohd Al Hinai
Chairman

Adnan Bin Haider Bin Darwish
General Manager

The accompanying notes on pages 9 to 57 form an integral part of these financial statements.

Statement Of Profit Or Loss And Other Comprehensive Income
For The Year Ended 31 December 2018

	Notes	2018 RO'000	2017 RO'000
Interest income	20	31,174	27,646
Interest expense	21	(8,735)	(6,492)
Net interest income		22,439	21,154
Other operating income	22	868	950
General and administrative expenses	23	(7,531)	(6,706)
Depreciation of property and equipment	7	(152)	(184)
Foreign exchange gain / (loss)		297	(540)
Operating expenses		(7,386)	(7,430)
Net operating income before loan impairment charges and other credit risk provisions		15,921	14,674
ECL charge on mortgage loans under IFRS 9	6	(1,975)	N/A
ECL charge on other financial assets under IFRS 9	34	(8)	N/A
Provision for impairment of mortgage loans - specific	6	N/A	(930)
Provision for impairment of mortgage loans - general	6	N/A	(1,109)
Provision for impairment of mortgage loans - specific (restructured loans)	6	N/A	(28)
Reversal of provision for impairment of restructured loans	6	N/A	17
Reversal of provision for impairment of loans - specific	6	N/A	549
		(1,983)	(1,501)
Total comprehensive income for the year		13,938	13,173
Earnings per share (basic and diluted)	24	0.139	0.132

The accompanying notes on pages 9 to 57 form an integral part of these financial statements.

Statement Of Changes In Equity
For The Year Ended 31 December 2018

	Share capital	Legal reserve	Special reserve	Impairment reserve	Revaluation reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2018	100,000	21,323	58,006	-	2,319	68,987	250,635
ECL reversal on mortgage loan accounts on adoption of IFRS 9 (refer note 2.2 (ii))	-	-	-	-	-	7,410	7,410
ECL change on other financial assets on adoption of IFRS 9 (refer note 2.2 (ii))	-	-	-	-	-	(28)	(28)
	100,000	21,323	58,006	-	2,319	76,369	258,017
Provision transferred to impairment reserve as required by CBO (note 2.2.(iii))	-	-	-	7,410	-	(7,410)	-
Restated balance at 1 January 2018	100,000	21,323	58,006	7,410	2,319	68,959	258,017
Comprehensive income:							
Profit for the year	-	-	-	-	-	13,938	13,938
Transactions with shareholders:							
Additional CBO provision for current year transferred to impairment reserve - as required by CBO over and above IFRS 9 requirements (refer note 6.2)	-	-	-	1,800	-	(1,800)	-
Reversal of ECL on mortgage loans under IFRS 9 (refer note 6.2)	-	-	-	(1,975)	-	1,975	-
Dividend paid for 2017 (note 19)	-	-	-	-	-	(5,000)	(5,000)
Transfer to legal reserve (note 15)	-	1,394	-	-	-	(1,394)	-
Transfer to special reserve (note 16)	-	-	2,509	-	-	(2,509)	-
Total transactions with shareholders	-	1,394	2,509	(175)	-	(8,728)	(5,000)
At 31 December 2018	100,000	22,717	60,515	7,235	2,319	74,169	266,955
At 1 January 2017	100,000	20,006	55,635	-	2,319	63,544	241,504
Comprehensive income: Profit for the year	-	-	-	-	-	13,173	13,173
Transactions with shareholders:							
Dividend paid for 2016 (note 19)	-	-	-	-	-	(4,042)	(4,042)
Transfer to legal reserve (note 15)	-	1,317	-	-	-	(1,317)	-
Transfer to special reserve (note 16)	-	-	2,371	-	-	(2,371)	-
Total transactions with shareholders	-	1,317	2,371	-	-	(7,730)	(4,042)
At 31 December 2017	100,000	21,323	58,006	-	2,319	68,987	250,635

The accompanying notes on pages 9 to 57 form an integral part of these financial statements.

Statement Of Cash Flows
For The Year Ended 31 December 2018

	Note	2018 RO'000	2017 RO'000
Cash flows from operating activities			
Profit for the year		13,938	13,173
Adjustments:			
Depreciation of property and equipment	7	152	184
(Loss)/gain on disposal of property and equipment		(11)	34
Change in expected credit losses and other credit impairment charges	6	1,975	N/A
Reversal of provision for impairment of mortgage loans - specific	6	N/A	(549)
Reversal of provision for impairment of restructured mortgage loans	6	N/A	(17)
Provision for impairment of mortgage loans – specific	6	N/A	930
Provision for impairment of mortgage loans – specific (restructured loans)	6	N/A	28
Provision for impairment of mortgage loans – general	6	N/A	1,109
Banking and administrative service fees reserved during the year	6	134	85
Banking and administrative service fees written back during the year	6	(17)	(27)
Operating profit before changes in working capital		16,171	14,950
Changes in working capital:			
Due from government of Oman (a)		-	-
Mortgage loan accounts		(58,048)	(56,957)
Other assets		(3,791)	(428)
Due to banks		8,996	9,707
Customers' deposits		42,919	26,220
Other liabilities		1,538	2,192
Net cash generated from / (used in) operating activities		7,785	(4,316)
Cash flows from investing activities			
Proceeds from disposal of property and equipment		11	-
Purchase of property and equipment	7	(661)	(209)
Net cash used in investing activities		(650)	(209)
Cash flows from financing activities			
Repayment of loan from the Arab Fund for Economic and Social Development		(1,700)	8,080
Dividend paid	19	(1,950)	(4,042)
Net cash (used in)/ generated from financing activities		(3,650)	4,038
Net change in cash and cash equivalents		3,485	(487)
Cash and cash equivalents at the beginning of the year		8,076	8,563
Cash and cash equivalents at the end of the year (note 5)		11,561	8,076

(a) A non cash dividend amounting to RO 3.050 million has been adjusted against the balance due from government of Oman during the year.

(b) Net debt reconciliation is disclosed in note 33 of these financial statements.

The accompanying notes on pages 9 to 57 form an integral part of these financial statements.

1. Legal status and principal activities

Oman Housing Bank SAOC ("the Bank") was established as a closely held joint stock company in the Sultanate of Oman under the Royal Decree 51/77 and the term of the Bank has been extended under Royal Decree 36/2010 for twenty years commencing from August 2007. The registered address of the Bank is P O Box 2555, Ruwi, Postal code 112. The principal activity of the Bank is to provide housing loans to Omani Nationals through a network of 9 branches in the Sultanate of Oman.

As per the Articles of Association of the Bank, every year, a minimum dividend of 5% of the paid up share capital should be paid to the shareholders.

In accordance with Article 6 of the Royal Decree No. 51/77 and the Royal Decree No.36/2010, borrowers are charged a proportion of the prevailing total rate of banking and administrative service fees, determined in accordance with their monthly income. The Government of the Sultanate of Oman bears the difference between the prevailing total rate of banking and administrative service fees and the reduced rate of banking and administrative service fees in a form of subsidy.

2. Basis of preparation and summary of significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been constantly applied by the Bank except for change in accounting policies as mentioned in note 2.2 to these financial statements.

2.1. Basis of preparation

(a). Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and the applicable requirements of the Central Bank of Oman ('CBO') and the Commercial Companies Law of 1974, as amended, on the historical cost basis except for revaluation of lands which are measured at fair value.

IFRS's comprise accounting standards issued by the IASB as well as interpretations issued by the IFRS Interpretation Committee ('IFRIC').

The Bank presents its assets and liabilities broadly in order of the liquidity in the statement of financial position as this presentation is more appropriate to the Bank's operations and does not distinguish between current and non-current items.

(b). Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). These financial statements are presented in Rial Omani rounded off to the nearest thousand, which is the Bank's functional and presentation currency.

(c). Standards applicable during the year

The Bank has adopted IFRS 9 'Financial Instruments' as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which has resulted in changes in accounting policies and adjustments to the amounts previously recognised in financial statements. The Bank has applied IFRS 9 on a modified retrospective basis and as permitted by the transitional provisions of IFRS 9, the Bank has not restated prior period comparative financial statements, which are reported under IAS 39 'Financial Instruments: Recognition and Measurement' and are therefore not comparable to the information presented for 2018. The comparative period notes and disclosures repeat those disclosures made in the prior year.

In addition, the Bank has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on financial statements of the Bank.

(d). Use of estimates and judgments

The preparation of the financial statements in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to the impairment of mortgage loans carried at amortised cost.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(e). Future accounting developments

IFRS 16 'Leases' has an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17.

Under IFRS 16, a contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank's management is in a process of reviewing all of the leasing arrangements in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Bank's operating leases.

Other standards and interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Bank, are not expected to have a material impact on the Bank's financial statements.

2.2. Changes in accounting policies

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below.

(i). Classification and measurement of financial instruments

The measurement category and the carrying amount of financial instruments impacted by IFRS 9 are compared as follows:

Financial assets	Previous classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9	Difference
			31-Dec-17	1-Jan-18	
			RO' 000	RO' 000	RO' 000
Cash and bank balances	Loans and receivables	Amortised cost	8,076	8,064	12
Mortgage loan accounts	Loans and receivables	Amortised cost	476,163	483,573	(7,410)
Due from Government of Oman	Loans and receivables	Amortised cost	10,675	10,662	13
Other assets	Loans and receivables	Amortised cost	2,298	2,295	3
			497,212	504,594	(7,382)

(ii). Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics which are described in detail in notes of these financial statements. This includes assessment whether the financial assets held are Solely for Payments of Principal and Interest ('SPPI').

Please refer to note 2.3.1 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amount of financial instruments impacted by IFRS 9 with their previous measurement category in accordance with IAS 39 upon transition to IFRS 9 on 1 January 2018.

Particulars	IAS 39 Carrying amount 31-Dec-17	Re-classifications RO'000	Re-measurements RO'000	IFRS 9 carrying amount 1-Jan-18 RO'000
Amortized cost				
Cash and bank balances:				
Opening balance as per IAS 39	8,076	-	-	-
Re-measurement: Expected Credit Loss ("ECL") allowance	-	-	(12)	-
Restated balance under IFRS 9	-	-	-	8,064
Mortgage Loan accounts:				
Opening balance under IAS 39	476,163	-	-	-
Re-measurement: ECL allowance	-	-	7,410	-
Restated balance under IFRS 9	-	-	-	483,573
Due from Government of Oman:				
Opening balance under IAS 39	10,675	-	-	-
Re-measurement: ECL allowance	-	-	(13)	-
Restated balance under IFRS 9	-	-	-	10,662
Other assets:				
Opening balance under IAS 39	2,298	-	-	-
Re-measurement: ECL allowance	-	-	(3)	-
Restated balance under IFRS 9	-	-	-	2,295
Total financial assets measured at amortized cost	497,212	-	7,382	504,594

The total re-measurement loss of RO 7,382 was recognised in impairment reserves at 1 January 2018. The above adjustments have no effect on the statement of profit or loss and other comprehensive income for the year 2017.

(iii). Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconcile the prior year closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 Expected Credit Loss "ECL" model at 1 January 2018.

	Loan loss allowance under IAS 39/Provision under IAS 37	Re-classifications	Re-measurement	Loan loss allowance under IFRS 9
Measurement Category	RO' 000	RO'000	RO'000	RO'000
Loans and receivables / Financial assets at amortised cost				
Cash and bank balances	-	-	12	12
Mortgage loan accounts	10,696	-	(7,410)	3,286
Due from Government of Oman	-	-	13	13
Other assets	-	-	3	3
Total	10,696		(7,382)	3,314

Movement in retained earnings at 1 January 2018 on adoption of IFRS 9 listed below,

	2018
Particulars	RO'000
Retained earnings as at 1 January 2018– IAS 39	68,987
ECL reversal on mortgage loan accounts on adoption of IFRS 9	7,410
ECL change on other financial assets on adoption of IFRS 9	(28)
	7,382
Adjusted retained earnings 1 January – IFRS 9	68,959

2.3. Financial assets and liabilities

Measurement methods under IFRS 9

Amortised cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Financial instruments include cash and bank balances, mortgage loan accounts, due from government of Oman, due to banks, customers' deposits, loans from government of Oman, loan from the Arab Fund for Economic and Social Development and other financial assets and liabilities.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for the financial assets that become credit impaired (or stage 3) for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. gross amount less ECL).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At origination of financial instruments, the Bank measures them at their fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial instrument, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in statement of profit or loss and other comprehensive income. Immediately after initial recognition, ECL is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in statement of profit or loss and other comprehensive income when a financial asset is newly originated.

2.3.1. Financial assets

Classification and measurement under IFRS 9

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and their cash flow characteristics.

Business model assessment

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows, with amounts being collected through collection department if the default happens. This accordingly follows the business model of collecting contractual cash flow and accordingly classified as financial assets at amortized cost.

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

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI, if any.

Assessment whether contractual cash flows are SPPI

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

In assessing whether the contractual cash flows are SPPI, the Bank will consider the contractual terms of the financial instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

IFRS 9 includes three principal classification categories for financial assets which are now measured at amortised cost, Fair value Through Other Comprehensive Income ('FVOCI'); and Fair Value Through Profit or Loss ('FVTPL').

It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables, held for trading and available-for-sale.

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

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

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

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

On initial recognition, an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise, meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A financial asset is classified into one of these categories on initial recognition. The Bank does not deal with derivatives of any kind hence, hedge accounting is not applicable.

Classification and measurement under IAS 39

Financial assets and liabilities

All financial instruments are recognised initially at fair value at trade date. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Financial instruments include cash and bank balances, mortgage loan accounts, due from government of Oman, due to banks, customers' deposits, loans from government of Oman, loan from the Arab Fund for Economic and Social Development and other financial assets and liabilities.

(a). Classification

The bank classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(b). Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The bank's loans and receivables comprise mortgage loan accounts, due from Government of Oman and cash and bank balances in the statement of financial position.

(c). Recognition

The bank 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 bank becomes a party to the contractual provisions of the instrument.

Impairment of financial assets under IFRS 9

The Bank assesses on a forward looking basis the ECL associated with the financial assets carried at amortized cost and FVOCI. The Bank recognises a loss allowance for such losses at each reporting date.

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

The new impairment model for ECL applies on financial assets carried at amortized cost and FVOCI, lease receivables; and loan commitments and financial guarantee contracts issued (previously measured under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets').

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECL's are the ECL's that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECL's are the portion of ECL's that result from default events that are possible within the 12 months after the reporting date.

Note 28.3.4 provides more details on how the expected credit loss allowance is measured.

Measurement of ECLs

The Bank recognises loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

ECLs are a probability-weighted estimate of credit losses and is measured as follows:

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

Unimpaired and without significant increase in credit risk ('SICR') (Stage 1)

ECL resulting from default events that are possible within the next 12-months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Financial assets with SICR but not Credit Impaired (Stage 2)

Financial assets which have experienced a SICR (as defined in note 28.3.2 of the financial statements) are in 'stage 2'; and lifetime ECL is required to be calculated.

Definition of default / Credit Impaired (Stage 3)

Under IFRS 9, the Bank considers a financial asset to be in default when there is available information that the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or the borrower is more than 90 Days Past Due ('DPD') on the respective significant credit obligation to the Bank. In assessing whether a borrower is in default, the Bank mainly considers quantitative factors to determine whether default event has occurred. For IFRS 9 perspective, default will happen when a significant credit obligation is 90 DPD or has been assigned a CBO classification of non-performing loan.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. A financial instrument is considered to no longer be in default, when it no longer meets the default criteria.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Determining SICR

Under IFRS 9, when determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort available to the Bank. As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 DPD. The Bank determines DPD by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment. The Bank primarily identifies SICR when the financial assets is contractually 30 DPD.

In certain instances, using expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Bank monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are, in general, the following variables:

- Probability of Default ('PD')
- Loss Given Default ('LGD'); and
- Exposure at Default ('EAD').

These parameters are derived (alone or together) from internally developed statistical models based on own historical data or derived from available market data.

Mortgage loan portfolio PD and EAD is usually estimated together using statistical models (flow rate models) based on internally compiled data.

(a). Probability of Default ('PD')

For ECL calculations, the PD on exposures must be estimated. For this purpose scorecards are required which capture the PD over the period of the loans.

After the date of initial recognition, for mortgage loans, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. A behavioural scorecard, based on the DPD is used to calculate the default rate of the mortgage loans customers. The Bank has used a 7-year portfolio history (2011 to 2017) with about 900 default events (the definition of default used is 90 DPD) to estimate the PD. This is calculated as an annual average over the 7 year reflecting a pattern of SICR. The result of modelling has resulted in the following behavioural scorecard:

Rating	DPD Bucket	PD
1	0-29	0.25%
2	30-59	1.82%
3	60-89	69.81%
4	greater than 90	100.00%

Point in Time ('PiT') PDs are obtained by overlaying the PDs of the behavioural scorecard (based on DPD's) with a simple macroeconomic model based on real Gross Domestic Product ("GDP") growth. Furthermore, three possible macro-economic scenarios are identified for the PDs – upturn, downturn and the scenario in which the PDs are the base-case PDs. These scenario PDs are assigned weights in order to obtain the PiT PD as a weighted average.

The DPD for each customer at a certain point in time is assessed and grouped into age-brackets (shown below). The Bank captures the number of DPD at month end only and as a result, overdue payments remain marked as 0 DPD during the month and jump to 30 or 31 DPD at month end depending on the number of days in the month. As a result, the first bucket DPD age-brackets of the scorecard contains all mortgage loans for which the number of DPD would be in the range of 0 to 29 days. This leads to the following definition of DPD bucket:

0-29 days	=	bucket 1
30-59 days	=	bucket 2
60-89 days	=	bucket 3
>89 days	=	bucket 4 (default)

Using the above methodology, following annual default rates were calculated:

Year	Default rate
2012	1.03%
2013	0.58%
2014	0.61%
2015	0.46%
2016	0.44%
2017	0.27%

For each loan, the DPD bucket is obtained at the beginning of the year and compared with the DPD bucket at the end of that year. The number of loans which migrate each year from one bucket to the next is counted built into a migration matrix.

Historical yearly DPDs for last 7 years were used to calculate the average migration matrix and derive multi-year PDs. First, the annual DPD migrations, evaluated at yearly intervals are used to derive the migration rates from each of the DPD age-brackets and then an observation-weighted average is taken to generate an average migration matrix. The PDs in the average migration matrix are used directly, ensuring adequate calibration to historical default rates.

Multi-year migration matrices are determined by multiplying the adjusted average matrix and derive term structures and marginal PDs for each rating grade. Resulting is a base-case PD term structure which then needs to be subject to the macroeconomic-overlay.

As the PiT PDs must be forward looking, a macroeconomic overlay is used to derive PiT PDs from the base case PDs. The macroeconomic model links the observed portfolio default rates of the Bank to the real GDP growth. In the absence of long enough default rate history, an expert judgment on the relationship is formed and an inverse relationship between GDP and default rate (as described below) using an exponential curve over a define range of GDP growth rate is developed to calculated PiT PD.

Year	PiT default rate (%)	Real GDP growth (%)
2012	1.03%	-1.09%
2013	0.58%	7.08%
2014	0.61%	6.55%
2015	0.46%	2.54%
2016	0.44%	4.70%
2017	0.27%	2.50%

A flat real GDP growth forecast of 2.5% is used for the base case scenario. This approach was for chosen to keep modelling simple. The upturn and downturn scenarios of GDP growth are derived as expert inputs of 4% and 1% respectively. For each of these scenarios a macro scalar is computed known as upturn and downturn factors for the respective scenarios. The macro-scalars are then applied to the base-case PDs and the weighted average is taken to get the PiT PDs.

The Bank applies three forward-looking global economic scenarios. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios, referred to as the Upside and Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative after consulting external subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 50%, Upside 10% and Downside 40%.

PD for all other financial assets are estimated using external terminal PD ratings available from Moody's.

(b). Loss given default (LGD)

LGD is required to estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate.

Due to the lack of internal data for modelling of LGD, Bank has to rely on benchmark for estimating LGD's.

The Bank only issues mortgage loans and thus for modelling purposes it has been assumed that all loans are collateralised. Due to the high Loan to Value ("LTV") of the mortgage portfolio, regulatory benchmark of 35% LGD for real estate is considered inappropriate and LGD of 45% for unsecured exposures is deemed too conservative. Accordingly, a credit risk expert judgement is taken and LGD of 40% was applied for the calculation of ECL on Stage 1 and Stage 2 mortgage loans considering high LTV of the loans and untested legal certainty.

As the bank collects recovery information, reliable LGD models can be built when more data is available, the current approach can then be replaced.

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

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition; and
- remaining term to maturity.

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

LGD for all other financial assets subject to ECL calculations are allocated a regulatory LGD of 45% on a conservative basis when there has not been any history of defaults.

(c). Exposure at default (EAD)

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities.

For an undrawn commitment component, the Bank measures ECLs over a period when the Bank's ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses, under the credit risk management actions the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and (where possible) as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in Sultanate of Omanwhere the Bank operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

The Bank uses (based on data availability and credibility of sources) an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers used are historical and forecasted GDP which have been explained above.

Please refer note 28 to these financial statements for detailed credit risk notes and sensitivity analysis.

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.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance 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.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

As the Bank only has immaterial modified loans, qualitative criteria to measure the default is considered to have an immaterial effect on the ECL calculated on the financial assets of the Bank.

Impairment of financial assets under IAS 39

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events as well as considering the guidelines issued by the Central Bank of Oman.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the statement of profit or loss and other comprehensive income.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the statement of profit or loss and other comprehensive income.

2.3.2. Financial liabilities

Classification and measurement under IFRS 9

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The Banks classifies its financial liabilities, ther than loan commitments at amortised cost. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in statement of profit or loss and other comprehensive income, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in other comprehensive income; and
- the remaining amount of the change in the fair value will be presented in statement of profit or loss and other comprehensive income.

Loan commitments

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit loss on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

2.3.3. Derecognition of financial assets and liabilities

Derecognition of financial assets under IFRS 9

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

Derecognition of financial liabilities under IFRS 9

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are adjusted in the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition of financial assets and liabilities under IAS 39

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(a). 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 bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(b). 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 effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.4. Revenue recognition

IFRS 15 Revenue from Contracts with Customers

On 1 January 2018, the Bank applied IFRS 15 “Revenue from Contracts with Customers” by adopting the cumulative effect method. IFRS 15 excludes from its scope revenue related to financial instruments, lease contracts and insurance contracts. As a result, the revenue of the Bank will not be impacted by the adoption of this standard, including net interest income.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The 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 Bank performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transitional impact to retained earnings. Hence the impact of IFRS 15 was limited to the new disclosure requirements.

Recognition of banking and administrative service fees

Banking and administrative service fees accrues on a time proportion basis taking into account the fees related to the loan and rate applicable. If the recovery of banking and administrative service fees on mortgage accounts is classified, its recognition in the statement of profit or loss and other comprehensive income is deferred until it is received in cash.

Recognition of interest income and expense

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income on accrual basis using the effective interest rate method on the principal outstanding.

Recognition of miscellaneous income

Miscellaneous income is credited to income at the time of effecting the transaction.

Recognition of commission and fees

Commission and fees are recognised in the statement of profit or loss and other comprehensive income at the time of effecting the transaction to which they relate.

Recognition of Government contribution to banking and administrative service fees

The proportion of banking and administrative services fees borne by the Government of the Sultanate of Oman is accrued on time apportioned basis and claimed at monthly intervals.

2.5. Mortgage loan accounts

Mortgage accounts originated by providing money directly to the borrower are categorised as originated loans and are stated at cost less any amounts written off, provision for impairment of loans / ECL and unrecognised banking and administrative service fees.

2.6. Property and equipment

Property and equipment except land are stated at cost less accumulated depreciation and impairment losses, if any. Land is stated at revalued amount. The cost of property and equipment is the purchase cost, together with any incidental expenses of acquisition.

Revaluation of lands are carried out every three years on an open market value for existing use basis, by an internal valuer in the engineering department of the bank or by external valuer. Net surplus arising on revaluation is credited to a revaluation reserve, except that a revaluation increase is recognised as income in the statement of profit or loss and other comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that asset. On disposal, the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through the statement of profit or loss and other comprehensive income.

Depreciation is calculated so as to write off the cost of property and equipment on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	Years
Buildings	25
Furniture, fixtures and office equipment	5 – 10
Other equipments	5
Motor vehicles	5

Capital work-in-progress is not depreciated until the asset is put to use, and will be depreciated based on the rates applicable to its particular category upon capitalisation.

Gains and losses on disposal of property and equipment are determined as the difference between the carrying amount of the asset and its selling price and are dealt within the statement of profit or loss and other comprehensive income.

2.7. Borrowings

Borrowings of the bank consists of amounts due from banks, customers' deposits, loan from government of Oman and loan from Arab Fund for Economic and Social Development. Borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds, net of transaction costs, and the redemption value recognised in the statement of profit or loss and other comprehensive income over the years of the borrowings on an effective interest rate basis.

2.8. Dividend distribution

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

2.9. Directors' remuneration

Directors' remuneration is calculated in accordance with the requirements of the Commercial Companies Law of 1974, as amended.

2.10. End of service benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees having regard to the requirements of the Omani Labour Law. For Omani employees the contributions are transferred to the Public Authority for Social Insurance in accordance with the terms of the Royal Decree 61/2013.

The Bank'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 the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

2.11. Provision

A provision is recognised in the statement of financial position when the Bank has present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows using a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as cost.

2.12. Other liabilities

Other liabilities are initially recorded at fair value and are subsequently measured at amortised cost.

2.13. Foreign currencies

Transactions in foreign currencies are translated to Rial Omani at the rate of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. The exchange gains or losses are included in the statement of profit or loss and other comprehensive income.

2.14. Earnings per share

The bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the 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.

2.15. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and all balances with banks maturing within three months from the date of original placement.

2.16. Operating lease payments

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments made under operating leases are recognised in the statement of profit or loss and other comprehensive income under 'general and administrative expenses' on a straight line basis over the term of the lease.

2.17. Grants related to assets

Government grants in form freehold land are credited to deferred grants related to assets and is recognized in the statement of profit or loss and other comprehensive income over the useful life of property constructed on that land. Grants are credited to profit or loss and other comprehensive income where no rational basis exists for allocating the grant to a period other than the one in which it was received.

3. Critical accounting estimates and judgments

The preparation of the financial statements in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of mortgage loan accounts.

3.1. Measurement of the expected credit loss allowance

Measurement of the expected credit loss allowance under IFRS 9

The measurement of the expected credit loss allowance for financial assets measured at amortised cost 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 has been defined above in these financial statement. Please refer to note 28 which sets out key sensitivities of the ECL to changes in these elements

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

- determining criteria for SICR
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

Bank has assessed the qualitative criteria to determine SICR in accordance with CBO Circular BM 1149 'Implementation of IFRS 9 on Financial Instruments. However, as the Bank only provides mortgage loan with a loan amount of less than RO 500,000, qualitative criteria to determine SICR are not mandatorily required to be assessed.

Impairment losses on mortgage loans under IAS 39

The Bank reviews its distressed mortgage loans at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

In addition to specific allowances against individually significant mortgage loans, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a higher probable risk of default than when originally granted. This takes into consideration factors such as any deterioration in collateral value or deterioration in cash flows.

4. Fair value estimation

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Accordingly, variances may arise between the historical cost and the fair value.

The Board of Directors considers that, except for the government of Oman and mortgage loans, the fair value of the assets and liabilities of the Bank are not materially different from their carrying amounts. The assumptions made to determine the fair value are as follows:

Short-term financial instruments

The carrying amounts of cash in hand and at banks, due from Government of Oman and due to banks recognised in the statement of financial position are considered to be a reasonable estimate of the fair values due to their short-term nature.

Mortgage loan accounts

The mortgage loan accounts are expected to run to maturity. It is not practicable to determine the fair value of mortgage accounts as the subsidy received from the Government is capped at an amount that is determined by the Government annually, currently at an interest rate of 6% (2017 – 6%). Consequently it is not feasible to assess the total return from these accounts for future periods.

Customer deposits

The fair values of savings accounts with no stated maturity approximate its carrying value. The fair value of term deposits is estimated using the rates offered for deposits having similar terms and conditions.

Term loans

The fair values of term loans are estimated using the interest rates offered for loans with similar terms and conditions. Term loan of the Bank includes loan received from Arab Fund for Economic and Social Development.

Loans from the Government of Oman

The fair values of loans 1, 2, 3 and 4 (note 13) from the Government are estimated using the interest rates offered for loans with similar terms and conditions. No fair value can be determined for the subordinated loan in the absence of a repayment schedule.

5. Cash and bank balances

	2018	2017
	RO	RO
Cash in hand	118	126
Cash at banks	11,463	7,950
ECL allowance	(20)	N/A
	11,561	8,076

6. Mortgage loan accounts

	2018	2017
	RO'000	RO'000
Gross mortgage loan accounts as at 1 January	487,156	430,199
Loans distributed during the year	81,138	87,157
Repayments during the year	(23,102)	(30,200)
Gross mortgage loan accounts as at 31 December	545,192	487,156
ECL provision as per IFRS 9 (refer note 6.1 below)	(5,261)	N/A
Provision for impairment of loans - specific (refer note 6.1 below)	N/A	(1,034)
Provision for impairment of loans - general (refer note 6.1 below)	N/A	(9,662)
Reserved banking and administrative service fees (refer note 6.2)	(414)	(297)
Net mortgage loan accounts as at 31 December	539,517	476,163

(a). General provision represents collective provision on a portfolio of mortgage loan.

(b). Reserved interest forms part of specific provision for the purpose of IFRS.

(c). As the CBO provision is higher than ECL calculated in accordance with IFRS 9 as at 1 January 2018, an adjustment amounting to RO 7.410 million has been made to transfer the excess provision to impairment reserve within in accordance with CBO Circular Number BM 1149.

6.1. The movement in the provision for impairment of loans during the year is as follows:

	2018	2017
	RO'000	RO'000
At 1 January	10,696	9,195
Provision amount transferred to impairment reserve under equity on adoption of IFRS 9 (note 2.2 (ii))	(7,410)	N/A
	3,286	9,195
ECL charge for the year on mortgage loans under IFRS 9	1,975	N/A
Provision for impairment of loans – specific	N/A	930
Provision for impairment of loans – specific (restructured loans)	N/A	28
Provision for impairment of loans – general	N/A	1,109
Reversal of provision for impairment of loans – specific	N/A	(549)
Reversal of provision for impairment of restructured loans	N/A	(17)
ECL / Provision for impairment as at 31 December	5,261	10,696

6.2. Reconciliation of provision as per CBO requirement and ECL under IFRS is as follows:

	2018
Particulars	RO'000
At 1 January – as per CBO requirement	10,696
Additional provision required on mortgage loans as per CBO requirement for the year	1,800
At 31 December – as per CBO regulation (refer note 6.3 below)	12,496
Provision amount transferred to impairment reserve under equity on adoption of IFRS 9 (refer note 2.2 (ii))	(7,410)
Current year CBO provision transferred to impairment reserve under equity- as required by CBO over and above IFRS 9 requirement	(1,800)
ECL charge for the year on mortgage loans under IFRS 9	1,975
At 31 December – ECL provision under IFRS 9	5,261

6.3. Provision as per CBO regulation is as follows:

	2018
Particulars	RO'000
ECL provision on mortgage loans as per IFRS 9 as at 31 December (refer note 6.1 above)	5,261
Additional impairment provision as per BM 1149 (refer note 17) appearing under equity	7,235
Provision for impairment as per CBO as at 31 December	12,496

6.4. The movement in the reserved banking and administrative service fees during the year is as follows:

	2018	2017
	RO'000	RO'000
At 31 December 2018 -	297	239
Banking and administrative service fees reserved during the year	134	85
Banking and administrative service fees written back during the year	(17)	(27)
At 31 December	414	297

Banking and administrative service fees on classified loans are not recognised as income by the Bank so as to comply with the rules, regulations and guidelines issued by Central Bank of Oman against mortgage loan accounts which are impaired i.e. overdue by more than 89 days.

The banking and administrative service fees rates varied from 1% to 6% (2017 - 1% to 6%) per annum in addition to the contribution received from the Government of the Sultanate of Oman.

Summary of mortgage loan accounts is as follows:

	2018	2017
	RO'000	RO'000
Performing accounts	538,631	483,203
Non-performing mortgage loans	6,561	3,953
Total mortgage loans	545,192	487,156
ECL Provision as per IFRS 9	(5,261)	N/A
Provision for impairment of loans	N/A	(10,696)
Reserved banking and administrative service fees	(414)	(297)
Net mortgage loan accounts as at 31 December	539,517	476,163
Non-performing loans for the purpose of CBO		
Substandard (past due 90 - 179 days)	885	1,214
Doubtful (past due 180 - 364 days)	2,081	864
Loss (past due 365 days and over)	3,595	1,875
	6,561	3,953
Fair value of collateral	6,131	3,889

7. Property and equipment

	Land and buildings	Furniture, fixtures and office equipment	Other equipment	Motor vehicles	Capital-work-in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost or revaluation						
At 1 January 2018	4,717	1,551	809	246	1,474	8,797
Additions during the year	-	49	482	35	95	661
Disposals during the year	-	(2)	(7)	(74)	-	(83)
Transfers during the year	282	31	1,161	-	(1,474)	-
At 31 December 2018	4,999	1,629	2,445	207	95	9,375
Accumulated depreciation						
At 1 January 2018	1,729	1,239	716	239	-	3,923
Charge for the year	32	59	54	7	-	152
Disposals	-	(2)	(7)	(74)	-	(83)
At 31 December 2018	1,761	1,296	763	172	-	3,992
Net book value						
31 December 2018	3,238	333	1,682	35	95	5,383

7. Property and equipment (continued)

	Land and buildings	Furniture, fixtures and office equipment	Other equipment	Motor vehicles	Capital-work-in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost or revaluation						
At 1 January 2017	4,717	1,404	765	246	1,508	8,640
Additions during the year	-	155	54	-	-	209
Disposals during the year	-	(12)	(14)	-	(26)	(52)
Transfers during the year	-	4	4	-	(8)	-
At 31 December 2018	4,717	1,551	809	246	1,474	8,797
Accumulated depreciation						
At 1 January 2017	1,698	1,174	665	220	-	3,757
Charge for the year	31	71	63	19	-	184
Disposal	-	(6)	(12)	-	-	(18)
At 31 December 2017	1,729	1,239	716	239	-	3,923
Net book value						
31 December 2017	2,988	312	93	7	1,474	4,874

Land and buildings includes lands granted by the Government of Sultanate of Oman at no cost. The market value of such lands at 31 December 2016 (last date of revaluation) was RO 2,319,500. Revaluations of lands are carried out every three years on an open market value for existing use basis, by an internal valuer in the engineering department of the bank or by external valuers. Accordingly 3 plots were revaluated during the year ended 31 December 2016. Fair value of the land has been classified as level 2 in accordance with the requirements of fair value hierarchy.

8. Other assets

	2018	2017
	RO'000	RO'000
Receivables against Government contribution to banking and administrative service fees (note 26)	6,034	2,298
Prepayments and others	135	80
ECL allowance	(7)	N/A
	6,162	2,378

9. Due to banks

	2018	2017
	RO'000	RO'000
Deposits from banks	41,000	32,000
Bank overdrafts	-	4
	41,000	32,004

Interest rates on term deposits vary from 3.50% to 4.40% (2017 – 2.75% to 3.75%) per annum.

10. Customers' deposits

	2018	2017
	RO'000	RO'000
Saving accounts	9,732	9,239
Term deposits from the shareholders	83,576	41,000
Term deposits from the customers	1,200	1,350
	94,508	51,589

Interest rates on savings accounts and terms deposits vary from 1.00% to 4.60% (2017 – 1.00% to 4.25%) per annum.

11. Other liabilities

	2018	2017
	RO'000	RO'000
Customers' insurance payable	2,844	2,221
Accrued interest	4,728	3,836
Sale proceeds for financing new residences and personal stakes	849	965
Retention payable to contractors	4,730	4,979
End of service benefits (note 11.1)	72	86
Other payables	1,592	1,190
	14,815	13,277

11.1. The movement in the end of service benefits liability during the year is as follows:

	2018	2017
	RO'000	RO'000
At 1 January	86	170
Expense recognised in the statement of profit or loss and other comprehensive income	27	16
Payments to employees left during the year	(41)	(100)
At 31 December	72	86

12. Loan from the Arab Fund for Economic and Social Development

During the year 2014, the Arab Fund for Economic and Social Development approved a loan of Kuwaiti Dinar ('KWD') 40,000,000 at an interest rate of 3% per annum. The amount of loan drawn as at 31 December 2018 is RO 49,130,700 (2017 - RO 50,830,632). The interest is paid every six month of each year in February and August. The loan is repayable in thirty-six semi-annual equal instalments starting from 1 August 2018 each amounting to KWD 1,100,000 and last instalment amounted to KWD 400,000. This is after grace period of four years from the first withdrawal.

13. Loans from Government of Oman

	2018	2017
	RO'000	RO'000
Government loan – 1	34,830	34,830
Government loan – 2	10,000	10,000
Government loan – 3	8,000	8,000
Government loan – 4	31,000	31,000
Subordinated loan	20,000	20,000
	103,830	103,830

Loan 1 from the Government of the Sultanate of Oman is denominated in Rial Omani and carries interest rate of 5% (2017 - 5%) per annum.

Loans 2, 3 and 4 from the Government of the Sultanate of Oman are denominated in Rial Omani and carry interest rate of 3% (2017-3%) per annum.

The above mentioned government loans (note 26) do not have repayments terms and management believes that these amounts will not be paid in the next 12 months.

During 2001, the Government of Sultanate of Oman approved a subordinated loan of RO 20,000,000 to the Bank, of which RO 12,000,000 was disbursed during the year 2001, RO 2,000,000 was disbursed during 2002, and the balance of RO 6,000,000 was disbursed during 2003. This is an interest free loan andrepayable on demand.

14. Share capital

The share capital of the Bank is divided into 100,000,000 (2017 – 100,000,000) shares of RO 1 each. The paid up capital of the Bank is 92,375,000 (2017 – 89,325,000) shares of RO 1 each (see note 26 for due from government of Oman for remaining share capital contribution). The shareholding pattern is as follows:

	2018	2017
Government of the Sultanate of Oman - Ministry of Finance (Parent)	61.0%	61.0%
Internal Security Service Pension Fund	6.5%	6.5%
Royal Guard of Oman Pension Fund	6.5%	6.5%
Ministry of Defence Pension Fund	6.5%	6.5%
Royal Oman Police Pension Fund	6.5%	6.5%
Civil Service Employees Pension Fund	6.5%	6.5%
Public Authority for Social Insurance	6.5%	6.5%

15. Legal reserve

In accordance with the Bank's Articles of Association and Commercial Companies Law of Oman 1974, as amended, the Bank is required to transfer 10% of its net profit for the year to a legal reserve until the balance of the reserve is equal to one-third of the Bank's paid up capital. The legal reserve is not available for distribution.

16. Special reserve

In accordance with the Articles of Association of the Bank, after appropriation of legal reserve and dividend proposed; the General Assembly may decide to create optional reserve accounts not exceeding 20% (2017: 20%) of the net profits for the year.

17. Impairment reserve

In accordance with Central Bank of Oman circular number BM 1149 'Implementation of IFRS 9 on Financial Instruments', in the first year of implementation, where the aggregate specific and general provisions along with reserve interest as per CBO norms is higher than the ECL under IFRS 9,the difference net of taxation should be transferred to the impairment reserve within equity. The impairment reserve is not available for distribution.

18. Revaluation reserve

This reserve represents the fair value gain arising from revaluation of lands after the initial recognition. During the year 2016, the Board of Directors had passed a resolution to revalue the lands owned by the Bank through external valuers, as a result 3 plots were revaluated.

	2018	2017
	RO'000	RO'000
At 31 December	2,319	2,319

The revaluation reserve is not available for distribution.

19. Proposed dividend

The cash dividend of RO 5 million has been proposed by the Bank's Board of Directors (2017 – RO 5 million) and will be submitted for shareholders' approval.

20. Interest income

	2018	2017
	RO'000	RO'000
Banking and administrative service fees	7,955	6,544
Government contribution to banking and administrative service fees (note 26)	23,167	21,097
Interest on short-term deposits	52	5
	31,174	27,646

In accordance with article 6 of the Royal Decree 51/77 and the Royal Decree 36/2010, borrowers are charged a proportion of the prevailing total rate of banking and administrative service fees, determined in accordance with their monthly income. The Government of the Sultanate of Oman bears the difference between the prevailing total rate of banking and administrative service fees and the reduced rate of banking and administrative service fees in a form of subsidy. For the year 2018, the subsidy amount was RO 23,166,510 (2017 - RO 21,096,872).

21. Interest expense

	2018	2017
	RO'000	RO'000
Interest on loans from the Government of Oman (note 26)	3,212	3,212
Interest on customers' deposits	3,998	1,859
Interest on loan from Arab Fund for Economic and Social Development	1,525	1,421
	8,735	6,492

22. Other operating income

	2018	2017
	RO'000	RO'000
Fees and commissions	832	939
Miscellaneous income	36	11
	868	950

23. General and administrative expenses

	2018	2017
	RO'000	RO'000
Staff expenses	6,409	5,715
Maintenance	229	134
Professional fees	176	184
Utilities and rent	91	116
Training expenses	69	55
Communication costs	36	40
Board of Directors' remuneration - proposed (note 26)	40	40
Board of Directors' meeting expenses and sitting fees (note 26)	37	29
Legal expenses	26	27
Travelling expenses	24	20
Stationary charges	19	17
Marketing expense	7	18
Miscellaneous expenses	368	311
	7,531	6,706

24. Earnings per share (basic and diluted)

The basic earnings per share has been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding during the year. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

	2018	2017
Net profit for the year (RO'000)	13,938	13,173
Weighted average number of shares outstanding (shares'000)	100,000	100,000
Earnings per share - basic and diluted (RO)	0.139	0.132

25. Mortgage loan commitments

	2018	2017
	RO'000	RO'000
Mortgage loan accounts - approved but not disbursed	27,670	37,646

26. Related parties

The Bank's related parties include the parent, Government of Sultanate of Oman – Ministry of Finance and related entities, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and includes members of the Boards of Directors of the Bank.

The bank has entered into transactions with Government of Oman, its directors, key management and other entities over which certain directors are able to exercise significant influence in the ordinary course of business.

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ("Significant shareholders") or their family members during the year is as follows:

	2018	2017
	RO'000	RO'000
Government		
Government contribution to banking and administrative service fees (note 20)	23,167	21,097
Interest on loans from the Government of Oman (note 21)	3,212	3,212
Directors		
Board of Directors' meeting expenses and sitting fees (note 23)	37	29
Board of Directors' remuneration - proposed (note 23)	40	40
Amount due (to) / from related parties:		
Loans from Government of Oman (note 13)	(103,830)	(103,830)
Interest accrued on 'loans from Government of Oman'	(1,912)	(1,912)
Receivable against Government contribution to banking and administrative service fees (note 8)	6,034	2,298
Due from Government of Oman – Share capital (net of ECL)	7,616	10,675
Term deposits from the shareholders (note 10)	(83,576)	(41,000)
Key management		
Mortgage loan accounts	214	180
Banking and administrative service fees	3	6

All loans to related parties are performing loans and no provision for impairment has been made against these loans as at 31 December 2018 and 2017.

Compensation of the key management personnel is as follows:

	2018	2017
	RO'000	RO'000
Salaries and allowances	583	545
Other benefits	202	199
	785	744

27. Capital management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Bank's capital comprises debts that include borrowings and equity attributable to shareholders, comprising issued capital, reserves and retained earnings under notes 14 to 18.

(a). Gearing ratio

The Bank's financial Risk Management Committee reviews the capital structure on a semi annual basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. The debt to equity ratio at the reporting date is as follows:

	2018	2017
	RO'000	RO'000
Debt	288,469	238,254
Equity	266,955	250,635
Debt to equity ratio	108.06%	95.06%

Debt includes due from banks, customer deposits, loan from Government of Oman and loan from the Arab Fund for Economic and Social Development. Equity includes all the capital and reserves of the Bank.

(b). Capital adequacy

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. Banks are required to maintain minimum capital adequacy ratio including capital conservation buffer in accordance with CBO stipulated guidelines.

	2018	2017
	RO'000	RO'000
Capital base		
Tier 1	244,776	232,641
Tier 2	841	2,430
Total capital base	245,617	235,071
Risk weighted assets		
Credit risk - on balance sheet items	212,728	191,172
Credit risk - off balance sheet items	2,364	3,262
Operational risk	41,304	38,379
Market risk	49,131	50,831
Total risk weighted assets	305,527	283,644
Capital adequacy ratio	80.39%	82.88%

28. Risk management policies

Risk management is the process by which the Bank identifies key risks, obtains consistent, understandable risk measures and chooses which risks require reduction and which to increase and by what means and establishes procedures to monitor the resulting risk position. The objective of risk management is to ensure that the Bank operates within the risk levels set by the Bank's Board of Directors, while the various business functions pursue their objective of maximizing the risk adjusted returns. The Bank has exposure to the following core risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

The bank borrows money from the Government, foreign and local financial institutions and local commercial banks at fixed interest rates and for various periods and seeks to earn above average interest margins by investing these funds in providing housing loans. The Bank continuously reviews its policies and internal control systems in order to ensure they include all reasonable procedures to minimise the risks as much as possible.

28.1. Market risk

Market risk is the risk of loss due to adverse changes in interest rates. The Bank does not participate in trading in debts, equity securities, and foreign exchange or derivative instruments.

28.1.1. Interest rate risk

Interest rate risk arises from the possibility that changes in the interest rates and the mis-matches in the amounts of assets or liabilities that mature or re-price during a given period.

The Bank provides housing assistance to Omani nationals by providing supported housing loans in accordance with its objectives. The interest of loan service provided by the Bank carries rates supported by the Government.

The Bank manages this risk by matching the re-pricing of assets and liabilities and through risk management strategies. The loans extended by the Bank are for periods varying from one to over twenty five years are at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the Bank's liabilities by its lenders due to economic factors would result to some extent in interest rate risk. The Bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from the Government at fixed interest rates.

Interest rate risk arises in the Bank's statement of financial position as a result of mismatches in the re-pricing of interest rate sensitive financial assets and liabilities. The Bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates. The Bank's exposure to interest rate risk is shown below.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as on 31 December 2018:

31 December 2018	Interest Rate	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Non-sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets											
Cash and bank balances		-	-	-	-	-	-	-	-	11,561	11,561
Mortgage loan accounts	1-6	3,259	6,646	9,951	9,933	11,016	78,141	75,789	344,782	-	539,517
Due from Government of Oman – share capital		-	-	-	-	-	-	-	-	7,616	7,616
Property and equipment		-	-	-	-	-	-	-	-	5,383	5,383
Other assets		-	-	-	-	-	-	-	-	6,162	6,162
Total assets		3,259	6,646	9,951	9,933	11,016	78,141	75,789	344,782	30,722	570,239
Liabilities and equity											
Due to banks	3.5-4.4	1,000	15,000	17,000	-	8,000	-	-	-	-	41,000
Customers' deposits	1-4.6	487	487	13,787	10,987	5,187	33,636	2,432	27,505	-	94,508
Loans from the Government of Oman	3-5	-	-	-	-	-	-	-	83,830	20,000	103,830
Loan from the Arab Fund for Economic and Social Development	3	-	1,404	-	1,404	-	5,616	5,616	35,091	-	49,131
Other liabilities		-	-	-	-	-	-	-	-	14,815	14,815
Total equity		-	-	-	-	-	-	-	-	266,955	266,955
Total liabilities and equity		1,487	16,891	30,787	12,391	13,187	39,252	8,048	146,426	301,770	570,239
Interest rate sensitivity gap		1,772	(10,245)	(20,836)	(2,458)	(2,171)	38,889	67,741	198,356	(271,048)	
Cumulative gap		1,772	(8,473)	(29,309)	(31,767)	(33,938)	4,951	72,692	271,048	-	

31 December 2017	Interest Rate	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Non-sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets											
Cash and bank balances		-	-	-	-	-	-	-	-	8,076	8,076
Mortgage loan accounts	1-6	2,881	6,009	9,001	8,982	9,622	70,371	67,697	301,600	-	476,163
Due from Government of Oman – share capital		-	-	-	-	-	-	-	-	10,675	10,675
Property and equipment		-	-	-	-	-	-	-	-	4,874	4,874
Other assets		-	-	-	-	-	-	-	-	2,378	2,378
Total assets		2,881	6,009	9,001	8,982	9,622	70,371	67,697	301.600	26,003	502,166
Liabilities and equity											
Due to banks	2.75-3.75	4,004	5,000	14,000	3,000	6,000	-	-	-	-	32,004
Customers' deposits	1-4.25	462	3,462	461	3,461	13,363	13,460	2,310	14,610	-	51,589
Loans from the Government of Oman	3-5	-	-	-	-	-	-	-	83,830	20,000	103,830
Loan from the Arab Fund for Economic and Social Development	3	-	-	-	-	4,149	5,533	41,149	-	-	50,831
Other liabilities		-	-	-	-	-	-	-	-	13,277	13,277
Total equity		-	-	-	-	-	-	-	-	250,635	250,635
Total liabilities and equity		4,466	8,462	14,461	6,461	23,512	18,993	74,459	98,440	283,912	502,166
Interest rate sensitivity gap		(1,585)	(2,453)	(5,460)	2,521	(13,890)	51,378	24,238	203,160	(257,909)	
Cumulative gap		(1,585)	(4,038)	(9,498)	(6,977)	(20,867)	30,511	54,749	257,909	-	

28.2. Currency risk

Currency risk arises as a result of fluctuations in the value of a financial instruments due to changes in foreign exchange rate. Bank does not hold foreign currency or any other foreign currency investment however the Bank has a borrowing in KWD. Therefore, changes in the KWD affect the statement of profit and loss and other comprehensive income of the Bank.

A change in the KWD by +1/-1% will increase / decrease the profit of the Bank by RO 491 thousand as at 31 December 2018 (2017– RO 508 thousand).

28.3. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customer, client or market counter parties fail to fulfil their contractual obligations to the Bank. 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. The function of credit risk management is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure. Credit Risk Management process of the Bank begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the Bank.

28.3.1.Credit risk measurement

(a). Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of financial assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, EAD and LGD.

28.3.2. Expected credit loss measurement

IFRS 9 outline a 'three stage models' for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

ECL calculation methodology has been defined in detail in note 2.3.1 of these financial statements.

28.3.3 Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Mortgage loans

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, 2018 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

		Impact on
	ECL	ECL
	RO 000	RO 000
Sensitivity of impairment estimates		
ECL on non-impaired loans under IFRS 9	889	-
Upside case - 100% weighted	580	309
Base case - 100% weighted	799	90
Downside case - 100% weighted	1,079	(189)

28.3.4. Maximum exposure to credit risk financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments, including mortgage loan commitments for which an ECL allowance is required to be calculated. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on the financial instruments of the Bank.

28.3.4 Maximum exposure to credit risk financial instruments subject to impairment (continued)

Maximum Credit Risk exposure of the mortgage loans including commitments to which Bank is exposed at the reporting date are detailed below,

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	RO 000	RO 000	RO 000	RO 000	RO 000
Credit grade					
Standard	590,021	957	-	590,978	541,772
Special Mention	-	445	-	445	-
Substandard	-	-	885	885	1,214
Doubtful	-	-	2,081	2,081	864
Loss	-	-	3,595	3,595	1,875
Gross carrying amount	590,021	1,402	6,561	597,984	544,861
Loss allowance (note 34)	(683)	(243)	(4,371)	(5,297)	(10,696)
Reserved interest (note 6)	-	-	(414)	(414)	(297)
Carrying amount	589,338	1,159	1,776	592,273	533,868

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	RO 000	RO 000	RO 000	RO 000	RO 000
Credit grade					
Standard	564,899	957	-	565,856	520,849
Special Mention	-	445	-	445	-
Substandard	-	-	885	885	1,214
Doubtful	-	-	2,081	2,081	864
Loss	-	-	3,595	3,595	1,875
Gross carrying amount	564,899	1,402	6,561	572,862	524,802
Loss allowance	(647)	(243)	(4,371)	(5,261)	(10,696)
Reserved interest	-	-	(414)	(414)	(297)
Carrying amount	564,252	1,159	1,776	567,187	513,809

With respect to exposures with banks, the management considers the credit risk exposure to be minimal as the Company deals with reputed local banks. The management does not expect any losses from non-performance by these counterparties.

Bank balances	2018	2017
	RO 000	RO 000
Baa1	7,855	6,556
P -3	556	293
Not rated	3,052	1,101
	11,463	7,950

28.3.5.Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for housing loans advanced. The Bank has internal policies on the acceptability of specific classes of collateral for credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral type for loans and advances is mortgages over residential properties.

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

The portion of the Bank's financial instruments originated by the mortgage business has sufficiently low LTV ratios, which result in no loss allowance being recognised in accordance with the Bank's expected credit loss model. The carrying amount of such financial asset is RO 2,190 thousands as at 31 December 2018.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it become more likely that the bank will take procession of collateral to mitigate potential credit losses. Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below.

	Gross exposure	Impairment	Carrying exposure	Fair value of collateral held
Credit-impaired assets	RO'000	RO'000	RO'000	RO'000
Mortgages loan accounts	6,561	4,371	2,190	6,131
Total credit impaired assets	6,561	4,371	2,190	6,131

The following table shows the distribution of LTV ratios for the Bank's mortgage credit-impaired portfolio:

Mortgage portfolio LTV distribution	(Gross carrying amount)
	RO ('000')
Lower than 50%	1,123
50 to 60%	767
61 to 70%	1,359
71 to 80%	1,279
81% to 90%	1,041
91 to 100%	388
Higher than 100%	604
Total	6,561

28.3.6 Loss allowance

The loss allowance recognised in the reporting period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the reporting period, and the consequent up-grading (or down-grading) between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the reporting period, as well as releases for financial instruments de-recognised in the reporting period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the reporting period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;

- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to financial assets that were written off during the reporting period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1	Stage 2	Stage 3	Total
Mortgage loan accounts including loans commitments	RO 000	RO 000	RO 000	RO 000
ECL as at 1 January 2018	1,547	-	1,739	3,286
Movements during the year				
Transfer from Stage 1 to Stage 2	(8)	8	-	-
Transfer from Stage 1 to Stage 3	(21)	-	21	-
Transfer from Stage 3	312	13	(325)	-
New financial assets originated or purchased	119	26	28	173
Changes in PDs/LGDs/EADs	(1,291)	196	2,949	1,854
Asset derecognised including final repayments	(11)	-	(41)	(52)
Loss allowance as at 31 December 2018 year	647	243	4,371	5,261

There has not been any movement in stages of the other financial assets which requires the movement disclosure as stated above.

28.3.7. Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

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

Below is the analysis for mortgage loan accounts inclusive of mortgage loan commitments and restructured loans:

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under equity	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms for the year
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	564,899	10,772	647	10,125	554,127	564,252	31,122	-
	Stage 2	957	-	84	(84)	957	873	-	-
	Stage 3	-	-	-	-	-	-	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	445	12	159	(147)	433	286	-	2
	Stage 3	-	-	-	-	-	-	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	885	220	487	(267)	665	398	-	5
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,081	535	1,144	(609)	1,546	937	-	28
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,595	957	2,740	(1,783)	2,638	855	-	379
Total	Stage 1	564,899	10,772	647	10,125	554,127	564,252	31,122	-
	Stage 2	1,402	12	243	(231)	1,390	1,159	-	2
	Stage 3	6,561	1,712	4,371	(2,659)	4,849	2,190	-	412
	Total	572,862	12,496	5,261	7,235	560,366	567,601	31,122	414

Below is the analysis for all financial assets:

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9 in the quarter	Reserve interest as per CBO norms for the quarter
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	590,021	10,772	683	10,089	579,249	589,338	31,122	-
	Stage 2	957	-	84	(84)	957	873	-	-
	Stage 3	-	-	-	-	-	-	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	445	12	159	(147)	433	286	-	2
	Stage 3	-	-	-	-	-	-	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	885	220	487	(267)	665	398	-	5
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,081	535	1,144	(609)	1,596	937	-	28
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,595	957	2,740	(1783)	2,638	855	-	379
Total	Stage 1	590,021	10,772	683	10,089	579,249	589,338	31,122	-
	Stage 2	1,402	12	243	(231)	1,390	1,159	-	2
	Stage 3	6,561	1,712	4,371	(2,659)	4,899	2,190	-	412
	Total	597,984	12,496	5,297	7,199	585,538	592,687	31,122	414

28.3.9. Loans with renegotiated term

Loss with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrowers financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable to the borrower than the Bank 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 repayments or write-off.

Restructured accounts

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9 for the year	Reserve interest as per CBO norms for the year
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	25	4	2	2	21	23	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		25	4	2	2	21	23	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Sub total		-	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	25	4	2	2	21	23		
	Stage 3	-	-	-	-	-	-	-	-
	Total	25	4	2	2	21	23	-	-

28.3.10. Impairment allowance and loss on mortgage loans

	As per CBO norms		As per IFRS 9		Difference	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Impairment charged to profit and loss account	-	-	-	-	-	-
Provision required as per CBO norms/ held as per IFRS 9	12,496	10,696	5,261	3,286	(7,235)	(7,410)
Gross NPL ratio	1.1%	0.81%	1.1%	0.75%	0.00%	0.06%
Net NPL ratio	0.08%	0.56%	0.04%	0.42%	0.04%	0.14%

28.3.11. Impairment allowance and loss on all financial instruments

	As per CBO norms		As per IFRS 9		Difference	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Impairment charged to profit and loss account	-	-	-	-	-	-
Provision required as per CBO norms/ held as per IFRS 9	12,496	10,696	5,297	3,313	(7,199)	(7,383)
Gross NPL ratio	1.1%	0.78%	1.1%	0.72%	0.00%	0.06%
Net NPL ratio	0.08%	0.53%	0.04%	0.39%	0.04%	0.14%

28.4. Liquidity risk

Liquidity risk is the potential inability of the Bank to meet its maturing obligations to a counter party. The Bank's conservative liability management policies are designed to ensure that even in adverse situations the Bank should be in a position to meet its obligations. In normal conditions the objective is to ensure that there are sufficient funds available to meet current financial commitments.

The Board of Directors and the management monitor the Bank's liquidity requirements on a regular basis.

The Bank endeavours to obtain low cost borrowings locally and regionally on both short and long-term bases to finance its loans.

The maturity profile of assets and liabilities is set out below.

28.4. Liquidity risk

The amounts disclosed in table below analyse the Bank's assets and liabilities as on 31 December 2018 into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed are the contractual cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not significant.

31 December 2018	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets									
Cash and bank balances	11,561	-	-	-	-	-	-	-	11,561
Mortgage loan accounts	3,259	6,646	9,951	9,933	11,016	78,141	75,789	344,782	539,517
Due from Government of Oman – share capital	-	7,616	-	-	-	-	-	-	7,616
Property and equipment	5,383	-	-	-	-	-	-	-	5,383
Other assets	6,026	15	71	50	-	-	-	-	6,162
Total assets	26,229	14,277	10,022	9,983	11,016	78,141	75,789	344,782	570,239
Liabilities and equity									
Due to banks	1,000	15,000	17,000	-	8,000	-	-	-	41,000
Customers' deposits	487	487	13,787	10,987	5,187	33,636	2,432	27,505	94,508
Loans from Government of Oman	20,000	-	-	-	-	-	-	83,830	103,830
Loan from the Arab Fund for Economic and Social Development	-	1,404	-	1,404	-	5,616	5,616	35,091	49,131
Other liabilities	176	2,029	3,384	1,522	7,176	418	-	110	14,815
Total equity	-	-	-	-	-	-	-	266,955	266,955
Total liabilities and equity	21,663	18,920	34,171	13,913	20,363	39,670	8,048	413,491	570,239
Net liquidity gap	4,566	(4,643)	(24,149)	(3,930)	(9,347)	38,471	67,741	(68,709)	
Cumulative liquidity gap	4,566	(77)	(24,226)	(28,156)	(37,503)	968	68,709	-	

31 December 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets									
Cash and bank balances	8,076	-	-	-	-	-	-	-	8,076
Mortgage loan accounts	2,881	6,009	9,001	8,982	9,622	70,371	67,697	301,600	476,163
Due from Government of Oman – share capital	-	10,675	-	-	-	-	-	-	10,675
Property and equipment	4,874	-	-	-	-	-	-	-	4,874
Other assets	2,298	80	-	-	-	-	-	-	2,378
Total assets	18,129	16,764	9,001	8,982	9,622	70,371	67,697	301,600	502,166
Liabilities and equity									
Due to banks	4,004	5,000	14,000	3,000	6,000	-	-	-	32,004
Customers' deposits	462	3,462	461	3,461	13,363	13,460	2,310	14,610	51,589
Loans from Government of Oman	20,000	-	-	-	-	-	-	83,830	103,830
Loan from the Arab Fund for Economic and Social Development	-	-	-	-	4,149	5,533	41,149	-	50,831
Other liabilities	56	1,244	1,914	329	5,319	8		4,407	13,277
Total equity	-	-	-	-	-	-	-	250,635	250,635
Total liabilities and equity	24,522	9,706	16,375	6,790	28,831	19,001	43,459	353,482	502,166
Net liquidity gap	(6,393)	7,058	(7,374)	2,192	(19,209)	51,370	24,238	(51,882)	
Cumulative liquidity gap	(6,393)	665	(6,709)	(4,517)	(23,726)	27,644	51,882	-	

29. Financial assets and liabilities

Accounting classifications as at reporting excluding ECL is listed below:

31 December 2018	Financial assets and liabilities at amortised cost	Total
	RO'000	RO'000
Financial assets		
Cash and bank balances	11,561	11,561
Mortgage loan accounts	539,517	539,517
Due from Government of Oman – share capital	7,616	7,616
Other assets	6,027	6,027
Total financial assets	564,721	564,721
Total non-financial assets		5,518
Total assets		570,239
Financial liabilities		
Due to banks	41,000	41,000
Customer deposits	94,508	94,508
Loans from Government of Oman	103,830	103,830
Loan from Arab Fund for Economic and Social Development	49,131	49,131
Other liabilities	14,743	14,743
Total financial liabilities	303,212	303,212
Total non-financial liabilities		72
Total liabilities		303,284

Accounting classifications as at:

31 December 2017	Financial assets and liabilities at amortised cost	Total
	RO'000	RO'000
Financial assets		
Cash and balances with banks	8,076	8,076
Mortgage loan accounts	476,163	476,163
Due from Government of Oman – share capital	10,675	10,675
Other assets	2,298	2,298
Total financial assets	497,212	497,212
Total non-financial assets		4,954
Financial liabilities		
Due to banks	32,004	32,004
Customer deposits	51,589	51,589
Loans from Government of Oman – share capital	103,830	103,830
Loan from Arab Fund for Economic and Social Development	50,831	50,831
Other liabilities	13,191	13,191
Total financial liabilities	251,445	251,445
Total non-financial liabilities		86
Total liabilities		251,531

30. Segmental information

The Bank operates only one business segment of the banking industry and its operating revenues arise from providing finance for housing in the Sultanate of Oman.

Since the Bank's entire mortgage loan accounts have associated risks and returns which are similar, the directors consider all mortgage loan accounts to be a single business. Accordingly, there is only one segment.

31. Taxation

In accordance with the Royal Decree 51/77 and Royal Decree 36/2010 the Bank is exempt from income tax.

32. Corresponding figures

Certain corresponding figures for 2017 have been reclassified in order to conform to the presentation adopted in the current period. Such reclassifications have not resulted in any change in the prior period reported profit or equity.

33. Net debt reconciliation

	2018	2017
	RO'000	RO'000
Cash and cash equivalents	11,561	8,076
Borrowings – repayable within one year	(94,743)	(77,362)
Borrowings – repayable after one year	(193,726)	(160,892)
Net debt	(276,908)	(230,178)

	2018	2017
	RO'000	RO'000
Cash and cash equivalents	11,561	8,076
Gross debt – fixed interest rates	(288,469)	(238,254)
Net debt	(276,908)	(230,178)

	Other assets	Liabilities from financing activities		
	Cash	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RO	RO	RO	RO
Net debt as at 1 January 2017	8,563	-	(146,581)	(138,018)
Cash flows, net	(487)	(77,362)	(160,892)	(238,741)
Net debt as at 31 December 2017	8,076	(77,362)	(307,473)	(376,759)
Cash flows, net	3,485	(17,381)	113,747	99,851
Net debt as at 31 December 2018	11,561	(94,743)	(193,726)	(276,908)

Borrowing of the banks consist of due to banks, customer deposits, loans from Government of Oman and Loan from the Arab Fund for Economic and Social Development.

34. ECL Reconciliation

	Mortgage loans	Other financial assets	Total
	2018	2018	2018
	RO ('000')	RO ('000')	RO ('000')
Opening ECL – 1 January(a)	(3,286)	(28)	(3,314)
ECL charge on mortgage loan accounts	(1,975)	-	(1,975)
ECL – other financial assets	-	(8)	(8)
Closing ECL – 31 December	(5,261)	(36)	(5,297)


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Social responsibility includes human, ethical, legal and economic responsibility

Oman Housing Bank welcomes partnership with the private sector in social responsibility programs, The housing bank opportunities to serve the largest segment of citizens with low and medium income.

The social responsibility program is not limited to Charitable Associations, but also includes human, moral, legal and economic responsibility.

The Bank has established In order to support the movement of housing and construction which contributes in achieving economical progress in the Sultanate. In order to achieve this objective, The Bank granted by virtue of a decree establishing it the privileges and mechanisms of action to enable it to achieve its objectives, particularly the social objectives which the rational government has sought. There have been many changes in the structure of fees for banking and administrative services since the establishment of the bank. All these changes have always been in the interest of the citizen by reducing the burden of fees incurred.

As for the changes that have affected by the government support, these changes did not harm the citizen in any way, but rather carried by the bank, which continues to carry out its mission since its establishment in order to achieve the interests of citizens priority.

The social responsibility of the Bank is achieving through the exercise of its natural role, as a housing lending institution through the many concessional terms under which it can borrow.

Whether in terms of the low level of fees for banking and administrative services to the extent of non-competition or in terms of exemptions of banking and administrative fees issued by the Government from time to time to include borrowers from the bank, for other social conditions, which have a social dimension, aim at relieving the burdens of citizens to the least extent possible.

In a society dominated by social solidarity since time immemorial, such as Omani society, social responsibility in all its contents has been achieved naturally, by moral, behaviour, individual and cluster as this society is a cohesive texture form that everyone feels that besides his rights he has duties towards others, especially towards those who cannot fulfil their own needs by providing them with benefits and driving the damages from them.

By virtue of the official legislations regulating the work of these banks, social responsibility is the result of it , and that is through facilitating easy access offered to citizens, which are not competitive from commercial banks including the exemptions which is carried out from time to time in order to enable citizens to live well and at the lowest possible cost.

The Royal Decree regarding the establishment of the bank was made available to build the housing projects for people with low or medium income or financing them. Such projects are with social dimension and as limited on the low and medium income citizens and its concessional terms. Naturally the Bank can establish such partnerships with the private sector or other socially responsible partnerships that are consistent with the purposes for which the Bank was established.

There are many forms of social responsibility already achieved in our country considering that this responsibility has several dimensions which assimilate in the human, ethical, legal and economic responsibility.

These dimensions are evolving and advancing the rise of human values and are already achieved in our society. Where the facilitators are responsible for social responsibility through active participation in charitable projects or support education, health and people with special needs, childhood and other social activities, As well as the State's duty in this regard the most Pompous images.

The value of the housing loan or instalment be treated indirect way from the point of view of social responsibility. The value of the housing loan has been taken into consideration. Serving the largest segment of citizens to expand the base of beneficiaries of its services. As for the monthly premium, it is low considering that it includes the portion of the banking and administrative services applied on the Borrower.

Since these fees are low and high are slightly increased percentages in accordance of income levels, they therefore take into account the social dimension and take into account the conditions of citizens according to their financial abilities.