بنك الإسكان العماني ش.م.ع.م.

OMAN HOUSING BANK S.A.O.C.

2019 ANNUAL REPORT

PIONEERING
INTEGRATED HOUSING

بنك الإسكان العماني ش.م.ع.م.
OMAN HOUSING BANK S.A.O.C.

“The elevation of Oman to the level of your aspirations and expectations in all fields will be the theme of the next stage, with the will of Allah. We will keep our eyes fixed on the supreme interest of our country, furnishing all means of support and empowerment to that effect.”

From His Majesty’s Royal Speech
23 February 2020

His Majesty
Sultan Haitham Bin Tariq

Contents

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.

H.E. Rashad Ahmed Mohammed Omair Al Hinai
Chairman of The Board of Directors

Board of Director's Report

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 31/12/2019.

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 financial year as rightly highlighted in the report.

Lending Activity

During the financial year, Oman Housing Bank has continued to provide subsidized loans to citizens with thanks to the government for their continuous support in this matter. The details of these activities are as follows:-

The number of loans approved are 1,393 loans that amount to RO 60 million until the end of 2019. The bank also sought to deliver its services to various governances of The Sultanate, specifically outside of Muscat, with these loans amounting to 1,151 loans that amount to RO 46.7 million that represent 77% of the total lending.

The following table showcases the subsidized loans provided distributed across The Sultanate's governorates between the years 2019 and 2018.

Branches	Subsidized Loans Approved During 2019				Subsidized Loans Approved During 2018			
	No	%	Amount (R.O.)	%	No	%	Amount (R.O.)	%
Main Office	242	17.4%	10,742,100	17.9%	383	20.8%	17,018,000	21.3%
Salalah	131	2.2%	1,546,300	2.6%	66	3.5%	3,438,900	4.3%
Sohar	202	14.6%	8,082,500	13.4%	230	12.5%	9,456,200	11.8%
Sur	124	8.9%	5,378,600	8.9%	145	7.9%	6,785,000	8.5%
Nizwa	204	14.6%	8,948,300	14.9%	275	14.9%	12,261,900	15.3%
Khasab	28	2%	1,436,300	2.4%	31	1.7%	1,591,300	2%
Buraimi	116	8.3%	5,143,500	8.6%	130	7.1%	5,669,300	7.1%
Rustaq	366	26.3%	15,494,900	25.8%	449	24.4%	18,265,400	22.8%
Ibra	80	5.7%	3,296,500	5.5%	132	7.2%	5,514,000	6.9%
Total	1393	100%	60,069,000	100%	1841	100%	80,000,000	100%

The total number of loans granted by Oman Housing Bank to the citizens since its establishment in 1977 until the end of the 2019 financial year across all governorates in The Sultanate totals to 45,681 loan with a total amount of RO 1.147 billion, of them 17,611 for the governorate of Muscat with an amount of RO 497 million representing 38.6% of total number of loans and equating to 34.6% of the total value of all subsidized loans.

Board of Director's of Oman Housing Bank 2019

In regard to the subsidized loans granted to citizens outside of the governorate of Muscat, the total amount has totaled to 28,070 loans worth RO 750 million representing 61.4% of total number of loans and equating to 65.4% of the total value of all subsidized loans as shown on the following table:-

Subsidized loans approved during the period from the date of inception until 31/12/2019

Branches	No	%	Amount (R.O.)	%
Main Office	17,611	38.6%	396,904,691	34.6%
Salalah	4,806	10.5%	99,432,051	8.7%
Sohar	4,556	10%	115,099,742	10%
Sur	3,013	6.6%	75,860,096	6.6%
Nizwa	5,004	10.9%	141,198,252	12.3%
Khasab	829	1.8%	21,927,400	1.9%
Buraimi	1,734	3.8%	52,761,055	4.6%
Rustaq	5,759	12.6%	179,909,500	15.7%
Ibra	2,369	5.2%	64,344,200	5.6%
Total	45,681	100%	1,147,436,987	100%

Financial Results

In terms of financial results and showcasing the financial figures of the balance sheet for the fiscal year ending in 31/12/2019, it is clear that Oman Housing Bank has achieved positive results by recording good growth rates in most financial indicators. The total assets of the bank have increase in 2019 to RO 591.9 million comparing to RO 570.2 million at the end of 2018, which is an increase of 3.8%.

The growth in assets was mainly driven by the rise in the housing loan portfolio as total loan portfolio increased on 31/12/2019 to reach RO 569.5 million comparing to RO 549.5 million at the end of 2018, which is an increase of 5.6%.

The bank has achieved a net profit of RO 16.8 million with an increase of 20.4% comparing with the net profit of 2018 which was RO 13.9 million. This is an unprecedented increase in the history of the bank, this was mainly due to efficient non-performing loan collection and efficient management of the bank's resources. Oman Housing Bank is seen as a forefront of the main banks operating in The Sultanate in terms of growth rate. Total shareholder's equity has increased to RO 279.2 million comparing to RO 267 million increasing by 4.6%, this increase is due to the increase of capital, reserves and retained earnings.

The following table shows the status of the most important financial indicators during the past five years, from 2015 to 2019 (in RO millions)

Particulars	2015	2016	2017	2018	2019
Net Profit	11.3	13.8	13.2	13.9	16.8
Total Assets	404.9	446.8	502.1	570.2	591.9
Total Liabilities	175.6	205.3	251.5	303.3	312.7
Total Net Loans	373.6	420.8	476.2	539.5	569.5
Total Shareholders Equity	229.3	241.5	250.6	267	279.2

The Bank focuses on developing its assets while maintaining the quality and durability of assets to enhance the financial position of Oman Housing Bank so that it can achieve its objectives effectively. The Board of Directors proposes to distribute the net profit of 2019 to the shareholders as follows:-

Net Profit for Year 2019 (in RO millions)	
Net Profit For The Year	16.778
Net Profit Distributions	1.678
Amount Transferred To The Special Reserve	3.020
Distribution Of Cash Dividends To The Shareholders (5% of paid capital)	6.000
Amount Transferred To Retained Earnings	6.080
Total Net Profit For the Year	16.778

In terms of training and human resources development, the Bank has organized 42 training sessions in various fields during the year inside and outside the Sultanate. The number of participants reached 246 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 98% of the total number of employees in the bank, thus 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.

PIONEERING INTEGRATED HOUSING

In conclusion, The Board of Directors of Oman Housing Bank extends its sincere condolences for the passing of His Majesty Sultan Qaboos bin Said – may Allah rest his soul – whom has established our modern renaissance. The Board of Directors also express their upmost pride by the renewed leadership, His Majesty Sultan Haitham bin Tariq – may Allah protect him – on the path of goodness, with the continued thanks expressed to the esteemed government for the continues support provided to Oman Housing Bank to enable it to provide its services to all citizens with ease.

The Board of Director also extends its sincere thanks to Oman Investment Authority, The Central Bank of Oman, Ministry of Finance and all ministries, institutions, organizations in the public and private sector for their sincere and honest corporation with Oman Housing Bank in order to successfully carry out its duties and responsibilities.

Also we send our thanks and appreciation to all of Oman Housing Bank's staff for their honest and sincere dedication they have provided to ensure the excellence of the bank.

May Allah help us and you to provide more to our beloved Oman under the wise leadership of His Majesty Sultan Haitham bin Tariq – may Allah protect him – and pray to Allah to grant His Majesty good health, wellness and longevity and the Omani people with well-being and prosperity.

Yours Faithfully,

H.E. Rashad Ahmed Mohammed Omair Al Hinai
Chairman of Board of Directors

Adnan Haider Darwish

Chief Executive Officer

Chief Executive Officer Statement

My warmest greetings to you all...

After compliments.

Oman Housing Bank is entering into its forty-three years since its establishment and has gone a long way in the road leading to its goals, constantly evolving its banking & administrative services to cope with the increasing volume of banking operations in a manner that meets with the aspirations of citizens and is well suited with the importance of the economical and financial position Oman Housing Bank holds in The Sultanate of Oman.

Oman Housing Bank has continued to provide long-term housing finance to Omani citizens, as a contribution to provide to the housing sector on concessional terms while maintaining its performance and achieving distinguished financial results. Oman Housing Bank has also maintained its leadership position in the housing sector while enhancing its financial position.

In terms of operational results, Oman Housing Bank has approved in 2019 loans amounting to RO 60 million, and the bank's loan portfolio has increased to about RO 569.5 million with a growth rate of 5.6% from the previous financial year.

The loans received during 2019 has accounted to about 3,600 requests with a value of about RO 171 million, which has indicated a growth for the demand for borrowing year to year. The capital adequacy ratio has significantly increased to exceed the regulatory requirements, as it exceed 79.5% which has indicates the strength of the financial position of the bank, as the bank has achieved net profits of RO 16.8 million, increasing by 20.4% over the last financial year's profit of RO 13.9 million, mainly due to efficient non performing loan collection and efficient management of the bank's resources.

The role of Oman Housing Bank has grown over the past few years, which is one of the reliable sources for the development drive, considering that the housing sector plays a vital role in the development of all other sectors. The bank has granted more than 45,600 loans worth over RO 1.148 billion.

Year after year the banking sector becomes more competitive which has required Oman Housing Bank to continue to develop its business and performance level and to implement its strategic and financial plans to ensure that customers and maintained with high confidence. This requires the continued hard work to ensure yearly growth rates to solidify the bank's position in a market characterized by competition and continues development.

The results achieved by Oman Housing Bank were through constant persistence and sincere efforts that will be maintained to ensure the sustainability of outstanding performance and robust banking performance.

Oman Housing Bank has given importance to the implementation of best practices of corporate governance as this enhances the banks performance as well as its risk management system all in line with the requirements of regulatorily bodies. Corporate governance forms an important pillar in the bank's relationship between The Board of Directors, The Executive Management and The Shareholders. The standards of transparency and disclosure in its operation are applied in accordance to the requirements of the corporate governance rules and best banking practices to reflect positively on all aspect of the bank's work.

The bank has continued its focus to the methodologies for identifying, measuring, mitigating and controlling risks as well as identifying the levels of risk appetite while ensuring the risk management policies and procedures are continuously updated to keep up with the developments and to enhance the effectiveness of risk management.

In conclusion... I would like to extend a word of thanks to the government for its continued support to Oman Housing Bank to ensure the continuity of services provided to Omani citizens. A word of thanks also to His Excellency the Chairman of The Board of Directors and all the members of The Board of Directors for their continued guidance and continuous follow-up to the performance of the bank in order to achieve the established objectives for the bank and to our customers for our trust in us.

I would also like to extend my thanks to all The Oman Housing Bank employees 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.

Adnan Haider Darwish

Chief Executive Officer

Legal Disclosure under Basel II Pillar III 2019

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: printing and Paid-up capital, statutory reserve, special reserve, retained earnings.

There are no innovative capital instruments in the capital. The paid-up share capital represents (95,425) 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 2019

Tier (1) Basic Capital	RO (000's)
Paid - Up Capital	95,425
Legal Reserve	24,395
Special Reserve	63,535
Retained Earnings	73,941
Total of Level (1)	257,296
Level (2) Additional Capital	1,905
Provisions for Loan Losses	1,905
Total of Level (2)	259,201

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 13.5%, 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 79.53%.

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	591,709	589,323	218,656
Off-balance sheet items	23,554	5,541	1,939
Total	615,263	594,864	220,595
CET 1 Capital			257,296
Additional Tier I			-
Total Tier I capital			257,296
Tier II Capital			1,905
Total Regulatory Capital			259,201
Capital requirements for credit risk		220,595	29,780
Capital requirements for market risk		61,757	8,337
Capital requirements for operational risk		43,564	5,881
Total Capital Risk		325,916	43,998
Capital Adequacy Ratio – First Level			78.95%
Capital Adequacy Ratio - Gross			79.53%

* 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 R.O. (000's):		
Type of credit	Average at current period	Current status as on 31/12/2019
Housing loans for citizens subsidized by the Government of the Sultanate of Oman	540,180	556,467
Other housing loans to citizens (un subsidized)	14,323	13,020
Total	554,503	569,487

Total Loan Movements R.O. (000's): IFRS 9 Details	Stage 1	Stage 2	Stage 3	Total
Opening balance	538,210	421	6,561	545,192
Migration / change (+/-)	1,169	284	(1,453)	-
New loans	62,000	0	0	62,000
Recovery of loans	(32,355)	(208)	(377)	(32,940)
Loans written off	(7)	-	(33)	(40)
Closing balance	569,017	497	4,698	574,212
Total provisions	1,814	151	2,385	4,350

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.

c. 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.

d. 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.

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.

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

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of 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 directors are responsible for the other information. The other information comprises the Board of Director's Report and legal disclosure under Basel II Pillar III, (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Bank's complete Annual Report and Chief Executive Officer's Speech, which is expected to be made available to us after that date.

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

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

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

Other information (continued)

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

When we read the Bank's Annual Report and Chief Executive Officer's Speech, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

Report on other legal and regulatory requirements

Further, as required by the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements comply, in all material respects, with those provisions.

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P.O. Box : 3075, Ruwi, P.C. 112
Oman
PricewaterhouseCoopers

21 June 2020
Muscat, Sultanate of Oman

Statement of Financial Position
At 31 December 2019

		2019	2018
Assets	**Notes**	**R.O. (000's)**	**R.O. (000's)**
Cash and cash equivalents	5	10,088	11,561
Mortgage loan accounts	6	569,487	539,517
Other assets	8	2,216	6,162
Due from Government of Oman – share capital	27	4,572	7,616
Property and equipment	7	5,561	5,383
Total Assets		**591,924**	**570,239**
Liabilities & Equity			
Liabilities			
Due to banks	9	20,000	41,000
Other liabilities	11	14,919	14,815
Customers' deposits	10	87,203	94,508
Loan from the Arab Fund for Economic and Social Development	12	61,757	49,131
Loan from a bank	13	25,000	-
Loans from Government of Oman	14	103,830	103,830
Total liabilities		**312,709**	**303,284**
Equity			
Share capital	15	100,000	100,000
Legal reserve	16	24,395	22,717
Special reserve	17	63,535	60,515
Impairment reserve	29	8,543	7,235
Revaluation reserve	7,19	2,801	2,319
Retained earnings		79,941	74,169
Total equity		**279,215**	**266,955**
Total Liabilities & Equity		**591,924**	**570,239**
Mortgage loan commitments	**26**	**23,554**	**27,670**

The financial statements were approved by the Board of Directors and authorised for issue on 21/06/2020 in accordance with the resolution of the Board of Directors.

H.E. Rashad Ahmed Mohammed Omair Al Hinai
Chairman of The Board of Directors

Adnan Haider Darwish
Chief Executive Officer

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2019

		2019	2018
Income	Notes	R.O. (000's)	R.O. (000's)
Interest income	21	33,712	31,174
Interest expense	22	(10,390)	(8,735)
Net interest income		23,322	22,439
Other operating income	23	749	868
Expenses			
Operating expenses	24	(7,408)	(7,531)
Depreciation of property and equipment	7	(481)	(152)
Foreign exchange gain / (loss)		(327)	297
ECL charge on mortgage loans under IFRS 9	29.3.5	897	(1,975)
ECL charge on other financial assets under IFRS 9		26	(8)
Total expenses		(7,293)	(9,369)
Profit for the year		16,778	13,938
Other comprehensive income Items that will not be reclassified to profit or loss			
Net revaluation surplus on lands during the year	7	482	-
Total comprehensive income for the year		17,260	13,938
Earnings per share (basic and diluted)	25	0.168	0.139

Statement of changes in equity
for the year ended 31 december 2019

	Share capital	Legal reserve	Special reserve	Impairment reserve	Revaluation reserve	Retained earnings	Total
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
At 1 January 2019	100,000	22,717	60,515	7,235	2,319	74,169	266,955
Comprehensive income:							
Profit for the year	-	-	-	-	-	16,778	16,778
Other comprehensive income							
Revaluation surplus during the year (note 7)	-	-	-	-	482	-	482
Total comprehensive income for the year	-	-	-	-	482	16,778	17,260
Transactions with shareholders:							
Dividend for 2018 (note 20)	-	-	-	-	-	(5,000)	(5,000)
Other transactions within equity							
Additional CBO provision for current year transferred to impairment reserve - as required by CBO over and above IFRS 9 requirements (refer note 29.3.7)	-	-	-	1,308	-	(1,308)	-
Transfer to legal reserve (note 16)	-	-	-	-	-	(1,678)	-
Transfer to special reserve (note 17)	-	1,678	-	-	-	(3,020)	-
Total other transactions with equity	-	-	3,020	1,308	-	(6,006)	-
At 31 December 2019	100,000	24,395	63,535	8,543	2,801	79,941	279,215
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	-	-	-	-	-	7,410	7,410
ECL change on other financial assets on adoption of IFRS 9	-	-	-	-	-	(28)	(28)
Provision transferred to impairment reserve as required by CBO	-	-	-	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	-	-	-	1,800	-	(1,800)	-
Reversal of ECL on mortgage loans under IFRS 9	-	-	-	(1,975)	-	1,975	-
Dividend paid for 2017 (note 20)	-	-	-	-	-	(5,000)	(5,000)
Transfer to legal reserve (note 16)	-	(1,394)	-	-	-	(1,394)	-
Transfer to special reserve (note 17)	-	-	2,509	-	-	(2,509)	-
Total other transactions with equity	-	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

Statement Of Cash Flows
For The Year Ended 31 December 2019

		2019	2018
Cash flows from operating activities	Note	R.O. (000's)	R.O. (000's)
Profit for the year		16,778	13,938
Adjustments:			
Depreciation of property and equipment	7	481	152
Gain on disposal of property and equipment	-	(4)	(11)
Change in Expected credit losses and other credit impairment charges	29.3.5	(897)	1,975
Amounts written-off	29.3.5	(14)	-
Banking and administrative service fees reserved during the year	6	2	134
Foreign exchange loss/(gain)	-	327	(297)
Banking and administrative service fees written back during the year	6	(41)	(17)
Operating profit before changes in working capital		16,632	15,874
Changes in working capital:			
Due from government of Oman(a)		-	-
Mortgage loan accounts		(29,026)	(58,048)
Other assets		3,946	(3,791)
Due to banks		(21,000)	8,996
Customers' deposits		(7,305)	42,919
Other liabilities		104	1,538
Net cash (used in)/ generated from operating activities		(36,649)	7,488
Cash flows from investing activities			
Proceeds from disposal of property and equipment		4	11
Purchase of property and equipment	7	(177)	(661)
Net cash used in investing activities		(173)	(650)
Cash flows from financing activities			
Loan from the Arab Fund for Economic and Social Development		15,091	-
Loan from a Bank	13	25,000	-
Repayment of loan from the Arab Fund for Economic and Social Development		(2,792)	(1,403)
Dividend paid(a)		(1,950)	(1,950)
Net cash generated from / (used in) financing activities		35,349	(3,353)
Net change in cash and cash equivalents		(1,473)	3,485
Cash and cash equivalents at the beginning of the year		11,561	8,076
Cash and cash equivalents at the end of the year (note 5)		10,088	11,561

(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.

Notes to The Financial Statements for Year Ended 31 December 2019

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 as stated otherwise.

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 2019, 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 the 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

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

(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

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. It sets out the fundamental concepts for financial reporting to ensure consistency in standard setting decisions and that similar transactions are treated in a similar way, to provide useful information to users of financial statements. The revised framework, which is effective from 1 January 2020 will inform future standard setting decisions but does not impact existing IFRS. Unless otherwise described above, the new interpretations are not expected to affect significantly the Bank's financial statements.

Other Standards

- Annual improvements to IFRS standards 2015-2017 cycle-various standards
- Interest rate benchmark reforms - Amendments to IFRS 9 and IFRS 7.

2.2. Financial assets

Measurement methods

- 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 a bank, 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. 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 when a financial asset is newly originated.

Classification and measurement

The classification and measurement approach for financial assets 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.

There are 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').

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.

Impairment of financial assets

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.

No impairment loss is recognised on equity investments.

A loss allowance will 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 29.3.5 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 are 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 29.3.3 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.

Determining SICR
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, 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 asset 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 and internal guidelines and settings.

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 adjusted to reflect forward-looking information where applicable.

Probability of Default ('PD')
PD estimates are estimates at a certain date, which are calculated based on statistical models. These statistical models are primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment data where available.

Loss given default (LGD)
LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value, adjusted for applicable haircuts and recovery costs of any collateral that is integral to the financial asset.

Exposure at default (EAD)
EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Forward-looking information
Where appropriate the Bank incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and 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 Oman where 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 correlations between macro-economic variables and credit risk and credit losses. At the reporting date, as no statistically valid correlations could be established, the Bank has concluded that the best reasonable and supportable information is the unadjusted historical information.

Please refer note 29 to these financial statements for detailed credit risk notes.

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.

2.3. Financial liabilities

Classification and measurement
The Bank classifies its financial liabilities, other than loan commitments at amortised cost.

Loan commitments
For loan commitments, which are related to partially drawn loans, loss allowances 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.

Derecognition of financial assets
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
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.

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.

2.4. Revenue recognition

IFRS 15 Revenue from Contracts with Customers
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 equipment	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 a bank, 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.

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. Leases

(a) Company as a lessee
Effective 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease term is considered to be the non-cancellable period for which the Company has the right to use an underlying asset. The lease term is adjusted for periods covered by an option to extend; if it is reasonably certain that the option will be exercised as well as periods covered by an option to terminate the lease; if it is reasonably certain that the option will not be exercised.

Lease- Accounting policy applied until 31 December 2018

Leases

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, 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

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 statements.

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.

The 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.

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% (2018 – 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 14) 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

	2019 R.O. (000's)	2018 R.O. (000's)
Cash in hand	98	118
Cash at banks	9,996	11,463
ECL allowance	(6)	(20)
	10,088	11,561

6. Mortgage loan accounts

	2019 R.O. (000's)	2018 R.O. (000's)
Gross mortgage loan accounts as at 1 January	545,192	487,156
Loans distributed during the year	62,000	81,138
Loans written off during the year	(40)	-
Repayments during the year	(32,940)	(23,102)
Gross mortgage loan accounts as at 31 December	574,212	545,192
ECL provision (refer note 29.3.5)	(4,350)	(5,261)
Reserved banking and administrative service fees (refer note 6.1)	(375)	(414)
Net mortgage loan accounts as at 31 December	569,487	539,517

As the CBO provision is higher than ECL calculated in accordance with IFRS 9 as at 31 December 2019, a transfer of the excess provision has been made between retained earnings and an impairment reserve in accordance with CBO Circular number BM 1149.

A detailed analysis of the movement in the ECL provisions is provided in note 29.3.5.

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

	2019 R.O. (000's)	2018 R.O. (000's)
As at 1 January	414	297
Banking and administrative service fees reserved during the year	2	134
Banking and administrative service fees written back during the year	(41)	(17)
At 31 December	375	414

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% (2018 - 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:

	2019 R.O. (000's)	2018 R.O. (000's)
Performing accounts	569,514	538,631
Non-performing mortgage loans	4,698	6,561
Total mortgage loans	574,212	545,192
Non-performing loans for the purpose of CBO (note 29.3.3)		
Substandard (past due 90 - 179 days)	160	885
Doubtful (past due 180 - 364 days)	801	2,081
Loss (past due 365 days and over)	3,737	3,595
	4,698	6,561
Fair value of collateral (note 29.3.4)	3,632	6,131

7. Property and equipment

	Land	Buildings	Furniture, fixtures and office equipment	Other equipment	Motor vehicles	Capital	Total
Cost or revaluation	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
At 1 January 2019	2,411	2,588	1,629	2,445	207	95	9,375
Additions during the year	-	-	54	56	15	52	177
Disposals during the year	-	-	(24)	(154)	(36)	-	(214)
Revaluation	482	-	-	-	-	-	482
Transfers during the year	-	-	14	81	-	(95)	-
At 31 December 2019	2,893	2,588	1,673	2,428	186	52	9,820
Accumulated depreciation							
At 1 January 2019	-	1,761	1,296	763	172	-	3,992
Charge for the year	-	43	64	363	11	-	481
Disposals	-	-	(24)	(154)	(36)	-	(214)
At 31 December 2019	-	1,804	1,336	972	147	-	4,259
Net book value 31 December 2019	2,893	784	337	1,456	39	52	5,561
Cost or revaluation							
At 1 January 2018	2,411	2,306	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	2,411	2,588	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	2,411	827	333	1,682	35	95	5,383

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 2019 was 2,893,000 (2016 RO 2,410,500). 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 9 plots were revaluated during the year ended 31 December 2019. Fair value of the land has been classified as level 2 in accordance with the requirements of fair value hierarchy.

8. Other Assets

	2019 R.O. (000's)	2018 R.O. (000's)
Receivables against Government contribution to banking and administrative service fees (note 27)	2,111	6,034
Prepayments and others	105	135
ECL allowance	-	(7)
	2,216	6,162

9. Due to banks

	2019 R.O. (000's)	2018 R.O. (000's)
Deposits from banks	20,000	41,000
	20,000	41,000

Interest rates on term deposits vary from 4.50% to 4.85% (2018 – 3.50% to 4.40%) per annum, maturing during the next 12 months (2018 - maturing during the next 12 months).

10. Customers' deposits

	2019 R.O. (000's)	2018 R.O. (000's)
Saving accounts	10,585	9,732
Term deposits from the shareholders (note 27)	75,418	83,576
Term deposits from the customers	1,200	1,200
	87,203	94,508

Interest rates on savings accounts and terms deposits vary from 1.00% to 4.60% (2018 – 1.00% to 4.60%) per annum, maturing between 2020 and 2021 (2018 – maturing between 2019 and 2020).

11. Other liabilities

	2019 R.O. (000's)	2018 R.O. (000's)
Customers' insurance payable	3,344	2,844
Accrued interest	5,792	4,728
Retention payable to contractors	3,405	4,730
End of service benefits (note 11.1)	44	72
Other payables	2,334	2,441
	14,919	14,815

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

	2019 R.O. (000's)	2018 R.O. (000's)
At 1 January	72	86
Expense recognised in the statement of profit or loss and other	38	27
Payments to employees left during the year	(66)	(41)
At 31 December 2019	44	72

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 Bank has fully drawn the account as at 31 December 2019, and has a balance of RO 46,538,513 at 31 December 2019 (2018 - RO 49,130,700). The interest is paid every six months 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.

During the year 2019, the Arab Fund for Economic and Social Development approved another loan of KWD 60,000,000 at an interest rate of 2.5% per annum. The amount of loan drawn as at 31 December 2019 is KWD 12,000,000 which is equivalent RO 15,218,694. The interest is paid every six months of each year in February and August.

13. Loan from a bank

During the year 2019, Bank Muscat approved a loan of RO 25,000,000 at an interest rate of 5%. The interest is paid every six months of each year in February and August the loan is re-payable semi-annually in 20 equal instalments amounting to RO 1,250,000 starting from 28 July 2021.

14. Loans from Government of Oman

	2019 R.O. (000's)	2018 R.O. (000's)
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% (2018- 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% (2018- 3%) per annum.

The above mentioned government loans (note 27) 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 and re-payable on demand.

15. Share capital

The share capital of the Bank is divided into 100,000,000 (2018 – 100,000,000) shares amounting to RO 100,000,000 (2018 – 100,000,000) . The paid up capital of the Bank is 95,425,000 (2018 – 92,375,000) shares amounting to 95,425,000 (2018 – 92,375,000) (see note 27 for due from government of Oman for remaining share capital contribution).

The shareholding pattern is as follows:

	2019 R.O. (000's)	2018 R.O. (000's)
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%

16. 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.

17. 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% (2018: 20%) of the net profits for the year.

18. Impairment reserve

In accordance with Central Bank of Oman circular number BM 1149 'Implementation of IFRS 9 on Financial Instruments', 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.

19. Revaluation reserve

This reserve represents the fair value gain arising from revaluation of lands after the initial recognition. During the year 2019, the Board of Directors had passed a resolution to revalue the lands owned by the Bank through external valuers, as a result all 9 plots were revaluated.

	2019 R.O. (000's)	2018 R.O. (000's)
At 1 January	2,319	2,319
Revaluation surplus during the year	482	-
At 31 December 2019	2,801	2,319

The revaluation reserve is not available for distribution.

20. Proposed dividend

The cash dividend of RO 6 million has been proposed by the Bank's Board of Directors (2018 – RO 5 million) and will be submitted for shareholders' approval.

21. Interest income

	2019 R.O. (000's)	2018 R.O. (000's)
Banking and administrative service fees	9,185	7,955
Government contribution to banking and administrative service fees (note 27)	24,450	23,167
Interest on short-term deposits	77	52
	33,712	31,174

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 2019, the subsidy amount was RO 24,449,907 (2018 - RO 23,166,510).

22. Interest expense

	2019 R.O. (000's)	2018 R.O. (000's)
Interest on loans from the Government of Oman (note 27)	3,212	3,212
Interest on customers' deposits	5,311	3,998
Interest on loan from a bank	384	-
Interest on loan from Arab Fund for Economic and Social Development	1,483	1,525
	10,390	8,735

23. Other operating income

	2019 R.O. (000's)	2018 R.O. (000's)
Fees and commissions	727	832
Miscellaneous income	22	36
	749	868

24. Operating expenses

	2019 R.O. (000's)	2018 R.O. (000's)
Staff expenses	6,014	6,409
Maintenance	331	229
Professional fees	226	176
Utilities and rent	104	91
Training expenses	74	69
Communication costs	40	36
Board of Directors' remuneration - proposed (note 27)	40	40
Board of Directors' meeting expenses and sitting fees (note 27)	26	37
Legal expenses	37	26
Travelling expenses	19	24
Stationary charges	12	19
Marketing expense	21	7
Miscellaneous expenses	464	368
	7,408	7,531

25. 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.

	2019	2018
Net profit for the year (RO'000)	16,778	13,938
Weighted average number of shares outstanding (shares'000)	100,000	100,000
Earnings per share - basic and diluted (RO)	0.168	0.139

26. Mortgage loan commitments

	2019 R.O. (000's)	2018 R.O. (000's)
Mortgage loan accounts - approved but not disbursed	23,554	27,670

27. 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:

	2019 R.O. (000's)	2018 R.O. (000's)
Government		
Government contribution to banking and administrative service fees (note 21)	24,450	23,167
Interest on loans from the Government of Oman (note 22)	3,212	3,212
Directors		
Board of Directors' meeting expenses and sitting fees (note 24)	26	37
Board of Directors' remuneration - proposed (note 24)	40	40
Amount due (to) / from related parties:		
Loans from Government of Oman (note 14)	(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)	2,111	6,034
Due from Government of Oman – Share capital (net of ECL) (note 15)	4,572	7,616
Term deposits from the shareholders (note 10)	(75,418)	(83,576)
Key management		
Mortgage loan accounts	188	214
Banking and administrative service fees	3	3
All loans to related parties are performing.		
Compensation of the key management personnel is as follows:		
Salaries and allowances	524	583
Other benefits	185	202
	709	785

28. 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:

	2019 R.O. (000's)	2018 R.O. (000's)
Debt	286,005	277,537
Equity	279,215	266,955
Debt to equity ratio	102.43%	103.96%

Debt includes due from banks, deposits from shareholders, loan from a bank, 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.

	2019 R.O. (000's)	2018 R.O. (000's)
Capital base		
Tier 1	257,296	244,776
Tier 2	1,905	841
Total capital base	259,201	245,617
Risk weighted assets		
Credit risk - on balance sheet items	218,656	212,728
Credit risk - off balance sheet items	1,938	2,364
Operational risk	43,564	41,304
Market risk	61,757	49,131
Total risk weighted assets	325,915	305,527
Capital adequacy ratio	79.53%	80.39%

29. 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
- Currency 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.

29.1. 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.

29.1.1. 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 (31 December 2019).

31 December 2019	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 Sensi-tive	Total
	%	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Assets											
Cash and bank balances	-	-	-	-	-	-	-	-	-	10,088	10,088
Mortgage loan accounts	1-6	3,490	7,105	10,648	10,632	11,318	83,466	80,545	362,283	-	569,487
Due from Government of Oman – share capital	-	-	-	-	-	-	-	-	-	4,572	4,572
Property and equipment	-	-	-	-	-	-	-	-	-	5,561	5,561
Other assets	-	-	-	-	-	-	-	-	-	2,216	2,216
Total Assets	-	3,490	7,105	10,648	10,632	11,318	83,466	80,545	362,283	22,437	591,924
Liabilities and equity											
Due to banks	4.5-4.85	1,000	8,000	11,000	-	-	-	-	-	-	20,000
Customers' deposits	1-4.60	529	6,129	10,861	7,529	8,729	22,008	6,147	25,271	-	87,203
Loans from the Government of Oman	3-5	-	-	-	-	-	-	-	83,830	20,000	103,830
Loan from the Arab Fund for Economic and Social Develop-ment	2.5-3	-	1,404	-	1,404	-	5,616	5,616	47,717	-	61,757
Loan from a bank	5	-	-	-	-	-	3,750	7,500	13,750	-	25,000
Other liabilities	-	-	-	-	-	-	-	-	-	14,919	14,919
Total equity	-	-	-	-	-	-	-	-	-	279,215	279,215
Total liabilities and equity	-	1,529	15,533	21,861	8,933	8,729	31,374	19,263	170,568	314,134	591,924
Interest rate sensitivity gap	-	1,961	(8,428)	(11,213)	1,699	2,589	52,092	61,282	191,715	(291,697)	-
Cumulative gap	-	1,961	(6,467)	(17,680)	(15,981)	(13,392)	38,700	99,982	291,697	-	-

The Bank's exposure to interest rate risk is shown below (31 December 2018).

31 December 2018	Interest Rate %	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Non Sensi-tive R.O. (000's)	Total R.O. (000's)
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 Develop-ment	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	-	-

29.2. 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 618 thousand as at 31 December 2019 (2018– RO 491 thousand).

29.3. 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.

29.3.1. 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.

29.3.2. 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 2.2 of these financial statements.

29.3.3. 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.

	2019			
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Credit Grade				
Standard	609,253	356	-	609,609
Special mention	-	141	-	141
Substandard	-	-	160	160
Doubtful	-	-	801	801
Loss	-	-	3,737	3,737
Gross carrying amount	609,253	497	4,698	614,448
Loss allowance	(1,814)	(151)	(2,385)	(4,350)
Reserved interest (note 6)	-	-	(375)	(375)
Carrying amount	607,439	346	1,938	609,723
	2018			
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Credit Grade				
Standard	590,021	957	-	590,978
Special mention	-	445	-	445
Substandard	-	-	885	885
Doubtful	-	-	2,081	2,081
Loss	-	-	3,595	3,595
Gross carrying amount	590,021	1,402	6,561	597,984
Loss allowance	(683)	(243)	(4,371)	(5,297)
Reserved interest (note 6)	-	-	(414)	(414)
Carrying amount	589,338	1,159	1,776	592,273

29.3.4. 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 low loss allowances being recognised in accordance with the Bank's expected credit loss model.

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. Mortgage financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below.

	2019	2018
	R.O. (000's)	R.O. (000's)
Mortgage credit-impaired assets		
Gross exposure	4,698	6,561
Expected credit losses	(2,385)	(4,371)
Carrying exposure	2,313	2,190
Fair value of collateral held	3,632	6,131

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

	2019	2018
	R.O. (000's)	R.O. (000's)
Lower than 50%	895	1,123
50 to 60%	982	767
61 to 70%	896	1,359
71 to 80%	1,169	1,279
81% to 90%	470	1,041
91 to 100%	123	388
Higher than 100%	163	604
Gross carrying amount	4,698	6,561

29.3.5. 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 refresh-ing 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;
- Financial assets fully or partially derecognised during the period; and
- Write-offs of allowances related to financial assets that were written off during the reporting period.

The following tables reconciles the loss allowance between the beginning and the end of the annual period:

	Stage 1	Stage 2	Stage 3	Total
Mortgage loan accounts including loans commitments	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
ECL as at 1 January 2019	647	243	4,371	5,261
Movements during the year				
Transfers between Stages	8	(12)	4	-
Net impairment charge / (release) for the year	1,159	(80)	(1,976)	(897)
Amounts written off	-	-	(14)	(14)
Loss allowance as at 31 December 2019 year	1,814	151	2,385	4,350
	Stage 1	Stage 2	Stage 3	Total
Mortgage loan accounts including loans commitments	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
ECL as at 1 January 2018	1,547	-	1,739	3,286
Movements during the year				
Transfers between Stages	283	21	(304)	-
Net impairment charge / (release) for the year	(1,183)	222	2,936	1,975
Amounts written off	-	-	-	-
Loss allowance as at 31 December 2018 year	647	243	4,371	5,261

29.3.6. 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 enforce-ment 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.

29.3.7. Comparison of provision held as per IFRS 9 and required as per CBO norms for mortgage loans, including commitments

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 and IFRS 9	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
As at 31 December 2019									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Standard	Stage 1	592,571	11,382	1,814	9,568	581,189	590,757	33,635	-
	Stage 2	356	7	94	(87)	349	262	-	-
	Stage 3	-	-	-	-	-	-	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	141	3	57	(54)	138	84	-	-
	Stage 3	-	-	-	-	-	-	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	160	58	127	(69)	99	30	-	3
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	801	185	375	(190)	605	415	-	11
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,737	1,258	1,883	(625)	2,118	1,493	-	361
Total	Stage 1	592,571	11,382	1,814	9,568	581,189	590,757	33,635	-
	Stage 2	497	10	151	(141)	487	345	-	-
	Stage 3	4,698	1,501	2,385	(884)	2,822	1,938	-	375
	Total	597,766	12,893	4,350	8,543	584,498	593,041	33,635	375
As at 31 December 2018									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(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	284	-	2
	Stage 3	-	-	-	-	-	-	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	885	220	487	(267)	665	393	-	5
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,081	535	1,144	(609)	1,546	909	-	28
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,595	957	2,740	(1,783)	2,638	476	-	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	1,157	-	2
	Stage 3	6,561	1,712	4,371	(2,659)	4,849	1,778	-	412
	Total	572,862	12,496	5,261	7,235	560,366	567,187	31,122	414

29.3.8. Mortgage loans with renegotiated terms

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.

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 and IFRS 9	Net Carrying Amount as per CBO norms	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
As at 31 December 2019									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	868	286	452	(166)	582	416	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	
	Stage 3	868	286	452	(166)	582	416	-	-
	Total	868	286	452	(166)	582	416	-	-
As at 31 December 2018									R.O. (000's)
(1)	(2)	(3)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5) – (10)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	25	4	2	2	21	23	-	-
	Stage 3	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	25	4	2	2	21	23	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Total	25	4	2	2	21	23	-	-

29.3.9. Impairment allowance and loss on mortgage loans and financial instruments

	As per CBO norms		As per IFRS 9		Difference	
	2019	2018	2019	2018	2019	2018
	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)	R.O. (000's)
Provision required as per CBO norms / held as per IFRS 9	12,893	12,496	4,359	5,261	(8,543)	(7,235)
Gross NPL ratio %	0.79%	1.10%	0.79%	1.10%	0.00%	0.00%
Net NPL ratio %	0.48%	0.08%	0.33%	0.04%	(0.16%)	(0.04%)

29.4. 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.

The amounts disclosed in table below analyse the Bank's assets and liabilities as on 31 December 2019 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 2019	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Total R.O. (000's)
Assets									
Cash and bank balances	10,088	-	-	-	-	-	-	-	10,088
Mortgage loan accounts	3,490	7,105	10,648	10,632	11,318	83,466	80,545	362,283	569,487
Due from Government of Oman – share capital	-	-	4,572	-	-	-	-	-	4,572
Property and equipment	5,561	-	-	-	-	-	-	-	5,561
Other assets	2,111	15	30	60	-	-	-	-	2,216
Total Assets	21,250	7,120	15,250	10,692	11,318	83,466	80,545	362,283	591,924
Liabilities and equity									
Due to banks	1,000	8,000	11,000	-	-	-	-	-	20,000
Customers' deposits	529	6,129	10,861	7,529	8,729	22,008	6,147	25,271	87,203
Loans from the 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	47,717	61,757
Loam from a bank	-	-	-	-	-	3,750	5,000	16,250	25,000
Other liabilities	2,034	1,919	784	282	678	3,527	-	5,695	14,919
Total equity	-	-	-	-	-	-	-	279,215	279,215
Total liabilities and equity	23,563	17,452	22,645	9,215	9,407	34,901	16,763	457,978	591,924
Net liquidity gap	(2,313)	(10,332)	(7,395)	1,477	1,911	48,565	63,782	(95,695)	-
Cumulative liquidity gap	(2,313)	(12,645)	(20,040)	(18,563)	(16,652)	31,913	95,695	-	-

29.4. Liquidity risk (Continued)

31 December 2018	Up to 1 month R.O. (000's)	1 - 3 months R.O. (000's)	3 - 6 months R.O. (000's)	6 - 9 months R.O. (000's)	9 - 12 months R.O. (000's)	1 - 3 years R.O. (000's)	3 - 5 years R.O. (000's)	More than 5 years R.O. (000's)	Total R.O. (000's)
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 the 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	-	-

30. Financial assets and liabilities

Accounting classifications as at reporting excluding ECL is listed below:

31 December 2019	Financial assets and liabilities at amortised cost R.O. (000's)	Total R.O. (000's)
Financial Assets		
Cash and cash equivalents	9,990	9,990
Mortgage loan accounts	569,487	569,487
Due from Government of Oman – share capital	4,572	4,572
Other assets	2,111	2,111
Total financial assets	586,160	586,160
Total non-financial assets		5,764
Total assets		591,924
Financial liabilities		
Due to banks	20,000	20,000
Customer deposits	87,203	87,203
Loans from Government of Oman	103,830	103,830
Loan from a bank	25,000	25,000
Loan from Arab Fund for Economic and Social Development	61,757	61,757
Other liabilities	14,875	14,875
Total financial liabilities	312,665	312,665
Total non-financial liabilities		44
Total liabilities		312,709

Accounting classifications as at 31 December 2018

31 December 2018	Financial assets and liabilities at amortised cost R.O. (000's)	Total R.O. (000's)
Financial Assets		
Cash and cash equivalents	11,443	11,443
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	564,603	564,603
Total non-financial assets		5,636
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

31. 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.

In addition all operations of the bank are in the Sultanate of Oman.

32. Taxation

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

33. Net debt reconciliation

	2019 R.O. (000's)	2018 R.O. (000's)
Cash and cash equivalents	10,088	11,561
Borrowings – repayable within one year	(107,959)	(94,743)
Borrowings – repayable after one year	(189,831)	(193,726)
Net debt	(287,702)	(276,908)

	2019 R.O. (000's)	2018 R.O. (000's)
Cash and cash equivalents	10,088	11,561
Government Debt – Interest free	(20,000)	(20,000)
Gross debt – fixed interest rates	(277,790)	(268,469)
Net debt	(287,702)	(276,908)

Liabilities from financing activities	Cash R.O. (000's)	Borrowings due within 1 year R.O. (000's)	Borrowings due after 1 year R.O. (000's)	Total R.O. (000's)
Net debt as at 1 January 2018	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)
Cash flows, net	(1,473)	(13,216)	(3,895)	(10,794)
Net debt as at 31 December 2019	10,088	(107,959)	(189,831)	(287,702)

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 and Loan from a Bank.

34. Event occurring after the reporting year

The existence of novel corona virus (Covid-19) was confirmed in early 2020 and has spread across the world, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of any potential impact it may or may not have on financials of the Bank. The impact of this outbreak on the Bank's financial statements in 2020, if any, will be disclosed suitably accordingly in the 2020 financial statements.

Social Responsibility

Human, Ethical, Legal & Economical Responsibility

Oman Housing Bank welcomes partnership with the private sector in social responsibility programs, the bank looks for 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.

Social Responsibility

Human, Ethical, Legal & Economical Responsibility

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.

Social Responsibility

Human, Ethical, Legal & Economical 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.

بنك الإسكان العماني ش.م.ع.م

OMAN HOUSING BANK S.A.O.C.

Pioneering Integrated Housing

Lasting Legacy

Tribute to the late Sultan

Lasting Legacy

The lasting legacy of the late Sultan Qaboos bin Said bin Taimur of which we all today experience the legacy, this was achievable through the hardwork of Omanis under the wise leadership & vision of The late Sultan. The Sultanate has grown over the past 50 years to become a developed country and is well noted as a beacon of peace and solidarity in the region. These few pages will capture some of the lasting legacy left from the late Sultan.

Contents

Snapshot of Oman's History

BC

6000

Majan

The earliest settlers of Oman were known to be Neolithic pastoralists and seafarers. Sumerian tablets referred to Oman as "Majan". During the early Iron Age, Oman had a booming copper industry.

AD

120-650

Azd Tribes

Migration to Oman started after the breach of Ma'rib Dam, and have fought of The Persians. In the Islamic Age, Omanis have peacfully embraced Islam to which the saying from Prophet Mohammed PBUH came:
If you were to come to the people of Oman, they would have never insulted nor abused you.

751-1154

Est. of Imamate

The establishment of Imamate system was in 750AD shortly after the fall of the Umayyads and Al-Julanda bin Mas'ood was elected in 751.

1154-1624

Nabhani Dynasty

Oman's Nabhani Dynasty came to power in 1406 and ruled over large areas of The Sultanate. One of their most visible legacies is the Bahla Fort which is registered today as a UNESCO world heritage site.

1624-1744

Ya'aruba Dynasty

In 1624, Al Ya'aruba took over the rule of Oman and Nasser bin Murshid was elected as the first Ya'arubi Imam. They expelled the Portuguese from coastal strong-holds in Muscat and united the country.

1744

The House of Al Busaidi

In 1744, Ahmad bin Said Al Busaidi was elected imam and have forced the Persians out of Oman in 1749, marking the last time Oman was occupied by foreign parties and the beginning of a new unified state.

1970-2020

Omani Renaissance

In 1970, The late Sultan Qaboos bin Said bin Taimur, aged 29, ascended to the throne after his father Sultan Said bin Taimur. Under the wise leadership & vision of The Sultan, Oman is seen today as a developed country & a beacon of peace and solidarity.

2020

Renewed Renaissance

After the death of The late Sultan, Sultan Haitham bin Tariq was named by the royal family & Sultan Qaboos's will as The Sultan of Oman to continue the renaissance of Oman into further prosperity. Sultan Haitham bin Tariq is the chairman of Oman's 2040 vision.

Sources

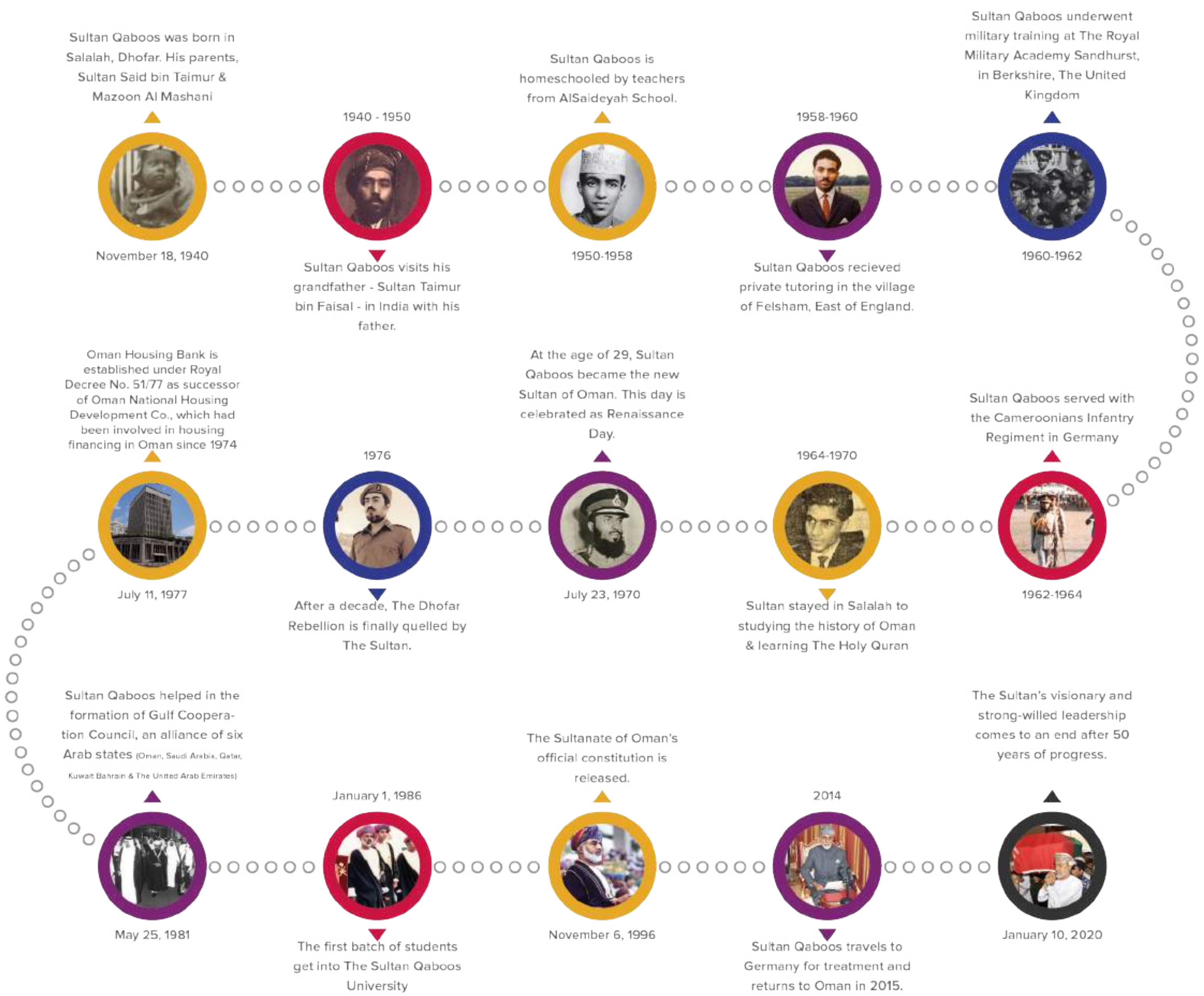
A History of Oman, UK Royal Airforce Museum | Oman, A History, Paul Launde | History of Imams and Seyyids of Oman | History of Oman
Reasearch by Yousif Al Bidawy on History of Oman | Majan History, Research | Oman Post

Oman, A Friend With All

Oman's firm principles is cooperation with all states and nations on the basis of mutual respect and non-interference in the affairs of others as well as non-acceptance of interference by others in The Sultanate's affairs.

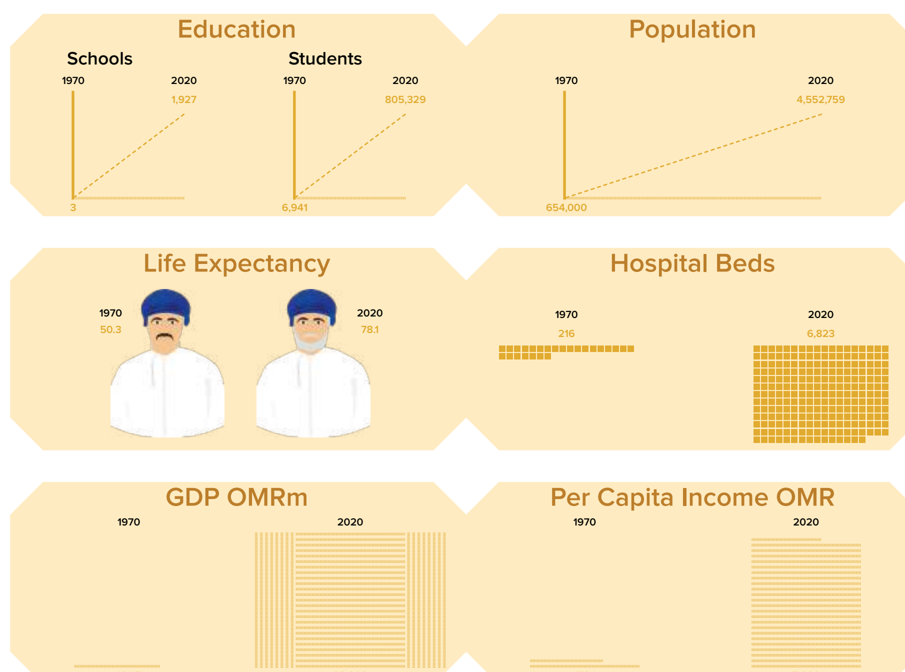
Life of The Late Sultan

The lasting legacy of the late Sultan Qaboos bin Said bin Taimur of which we all today experience the legacy, this was achievable through the hardwork of Omanis under the wise leadership & vision of The late Sultan. The Sultanate has grown over the past 50 years to become a developed country and is well noted as a beacon of peace and solidarity in the region.



50 Years of Progress

In 1970, the late Sultan has transformed Oman into a progressive and prosperous country that we see today. His Majesty has focused his investment to the better life of The Omani people.



'I will proceed as quickly as possible to transform your life into a prosperous one with a bright future. Every one of you must play his part towards this goal. Our country in the past was famous and strong. If we work in unity and cooperation, we will regenerate that glorious past and we will take a respectable place in the world'

His Majesty Sultan Qaboos bin Said bin Taimur
To his people on the day of his accession, 23rd July, 1970

Lasting Legacy

The Legacy Lives On

'Words fall short of articulating a eulogy for a Sultan as great as him, or describe his good deeds and accomplishments. Our only relief — the best with which we can eternalise his achievements — is to pursue his rightful legacy and derive impetus for the brilliant steps that he treaded in full confidence and determination, to preserve the gains that he made and to build upon them. This is what we are resolved to execute, God willing.'

From His Majesty's Royal Speech

11 January 2020