

be supported. The Bank is mindful of these developments and continuously carries out stress testing of the effect of the variable price of oil on the Corporate Credit portfolio and specifically on those borrowers deemed to be directly and indirectly affected by a volatile oil price.

The Bank took measures to proactively rationalize its exposures to counterparty Banks and countries where Credit and liquidity concerns were identified. Apart from monitoring Credit exposures on a regular basis, the Bank regularly tracks portfolio Credit quality, concentration risks, exposures to sensitive sectors and conducts regular stress tests on various aspects of the Credit portfolio as a whole and on particular sectors as and when potential adverse factors arise that could impact the quality and/or profitability of individual borrowers or on the portfolio as a whole.

The Bank has also progressively strengthened the oversight of and controls over Credit risk through the on-going enhancement of the Loan Review Mechanism (LRM) function. The LRM function within Risk, independently reviews the high risk, high value and new to Bank accounts across the various portfolios of the Bank. The post-approval process, usually instigated within three months of the account being approved, provides a quality assurance function over the entire loan process from account origination to disbursement and documentation. The LRM functions and operations are governed by and are in accordance with the Central Bank of Oman's guidelines and as approved by the Board of the Bank.

Retail Credit Risk

Credit facilities are offered to retail customers primarily based on an approved Product Program approach, which contains standard risk acceptance criteria and loan processing practices. The approach is followed to enhance

the efficiency and quality of the portfolio, optimizing its risk-and-reward mechanism. Further enhancements in the sphere of retail score carding is being developed with the intention to strengthen the robustness of the approval and analysis of retail Credits. A comprehensive review of the Retail Credit Portfolio is conducted at regular intervals. Salient areas covered include delinquency analysis, Non-Performing Assets trends and recoveries, monthly analysis and extensive analysis of provisioning requirements. Additionally, Retail Risk endeavours to implement international best practices through introducing analytical systems that aim to improve portfolio performance management and delinquency management. These systems are designed to highlight possible areas of concern in the portfolio prior to adverse trends actually developing in a proactive means so that the impact may be avoided.

Liquidity Risk Management

During the last quarter, coinciding with the fall in Oil prices, the volume of CDs witnessed a perceptible decline. The liquidity conditions are influenced by system-wide factors originating from both internal and external factions, and the Bank has in place a robust Liquidity Contingency Plan which takes into account various scenarios and has already been further strengthened by incorporating measures for contingencies such as intraday funding crisis and operational disruptions. The regular projections of maturity gaps for both Omani Rials and US Dollars enabled The Bank's ALCO (Asset Liability Committee) to formulate action plans in a timely manner, thus enabling it to effectively manage its liquidity position through a combination of available measures such that liquidity remained at all times adequate and within limits and tolerances.

The Liquidity Risk position continues to be monitored regularly through the analysis of various reports, such as the Maturity of Assets and Liabilities (measured both on a contractual and

behavioural basis), Liquidity Lines, Lending Ratio, Early Warning Indicators, Stock Ratios, Simulation of Gaps in Omani Rials and US Dollars, Liquidity Stress Tests and the Daily Financial Risk (DFR) report. Appropriate trigger levels have been approved and implemented to ensure liquidity risk is actively measured, monitored and managed such that corrective action is taken on a timely basis. Furthermore, risk limits, both imposed by the Central Bank of Oman and internally by the Board are measured and monitored on a regular basis.

Market Risk Management

The middle-office within the Market Risk division along with Treasury and Investment Banking Operations monitor foreign exchange and investment activities for the Bank on a daily basis, as well as any potential market risk arising from customer-related transactions.

The Interest Rate Risk in the Banking Book is analysed on a regular basis, and presented to ALCO based on its potential impact on the Economic Value, as well as the earnings at risk on account of parallel shifts in the interest rates. Monthly stress tests were conducted to study the effects of adverse movements in the currency rates, as well as impairment in investment exposures.

An integrated Treasury Front Office, Mid-Office and Back Office system captures and monitors market risks real-time in line with best practices and regulatory requirements.

Legal Risk Management

The Legal Division vets all the Bank's contracts, agreements, forms and lawsuits by liaising with external law firms. The division provides updates to the management team and the Board of Directors on any changes in Oman's legal framework, and works closely with the Human Resources Management Group on HR-related issues and lawsuits.

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Operational Risk Management (ORM)

The Operational Risk Management (ORM) division monitors operational risk-related incidents to ensure that effective and robust controls are in place / established. The Fraud Risk Management Division implemented a fraud monitoring system to monitor Debit and Credit MasterCard transactions real-time.

In addition, a comprehensive training program on the identification, management, and prevention of ATM and operational frauds was delivered to branch managers and ATM custodians across the Sultanate. Systems and procedures to detect, mitigate and manage fraud risk have been significantly enhanced. The Bank has implemented and enhanced fraud risk detection by introducing Risk Net across various channels. This system will be integrated with the Bank's entire network to detect both internal and external frauds to the greatest extent possible, irrespective of the delivery mechanism or product.

Remedial Management

The Remedial Management Division ('RMD') directly and proactively manages the Bank's sub-standard, doubtful and loss graded Corporate, Business and SME accounts. The division also manages a few Special Mention Accounts. Special Mention and sub-standard accounts are administered with the objective of collateralizing these facilities, if possible, restructuring them, if needed, and rehabilitating

