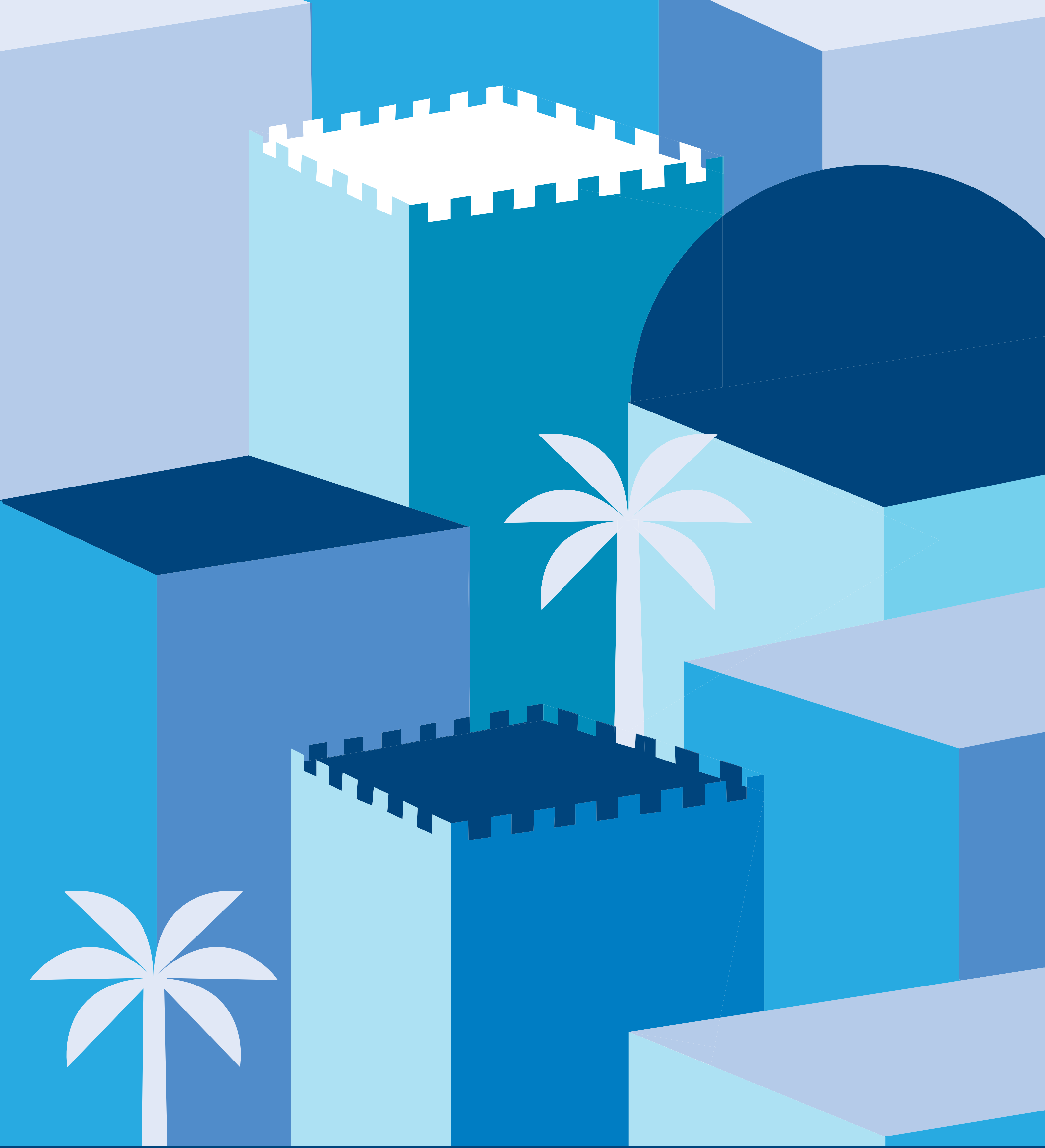


‘20 Annual Report

بنك عُمان العربي
OMAN ARAB BANK

"Despite these challenges posed to our economy, we are certain that the Fiscal Balance Plan and its related procedures, as endorsed by the government recently, will undoubtedly steer our economy to the shores of safety. The economy will witness, during the next five years, rates of growth that meet the expectations of all citizens of this dear country."

His Majesty Sultan Haitham Bin Tarik
November 2020

Contents

Chairman Report

Dear Shareholders,

I am delighted to share the results achieved for the financial year ended on December 31, 2020.

Towards the end of 2020, low oil prices and challenges resulting from the spread of the Coronavirus (COVID-19) pandemic continued to affect various business sectors and the national economy of the Sultanate. These circumstances caused a decline in the performance of various sectors of the economy in the second and third quarters as a result of the closure of many local economic activities for varying periods, in addition to the decline in global trade activities and their repercussions at the local level. The safety of our customers and employees remains at the forefront of our priorities. Oman Arab Bank (OAB) worked along with all other economic and social sectors to overcome this difficult stage while focusing on the strategic initiatives launched at the beginning of the year and the rearrangement of objectives to ensure business continuity.

Integration with Alizz Islamic Bank

During Q2 2020, the Bank completed its acquisition of Alizz Islamic Bank (AIB). OAB acquired 100 per cent of the shares in AIB and became a public joint-stock company (SAOG). The shares of the Bank were listed on the Muscat Securities Market for the first time on 6th of July 2020.

OAB also successfully completed the sale and integration of Al Yusr Islamic Banking window of OAB with AIB in Q3 2020. This included the transfer and integration of customers, services, employees, assets, and liabilities resulting in a larger Islamic banking entity which is independent operationally and administratively, and has its own Board of Directors and independent Sharia Supervisory Board. The bank's market share in Islamic Financing assets increased from 3% in June 2020 to 17% in December 2020 after the acquisition.

This acquisition also created a strategic platform to expand the scope of our services and enabled us to reach more customers through our extended network. The synergies within the Group will allow us to provide an enhanced customer experience.

Supporting Government Efforts to Combat COVID-19

In line with the sustainability strategy of OAB, and supporting the government efforts in combating the effects of the spread of the (COVID-19) pandemic, the Bank has taken several measures to support these efforts. It has allocated an account for the donations and contributions to the Ministry of Health and donated OMR 500,000 to support these efforts. OAB was the first to provide its customers with convenient and round the clock services through its digital channels and ATMs, to facilitate the donation process directly to the account of the Ministry of Health.

In March 2020, OAB initiated the postponement of loan installments for all the eligible customers. The Bank continued to adhere to the directives of the Central Bank of Oman, regarding the deferment of installments for those affected by the pandemic. This is in addition to waiving transfer fees and providing more facilities for small and medium enterprises (SMEs).

With regards to measures taken to mitigate the effects of the pandemic within the work environment, we were one of the first institutions to implement effective and record-breaking solutions to ensure the highest levels of safety for both, employees and customers. This included the effective launch of Work From Home protocols and the launch of the Wiqaya platform, initiated by the Human Resources Division.

Debt Exemption Initiative for Defaulting Borrowers

In line with the Bank's celebrations of the 50th National Day, and as part of its sustainability strategy, OAB has launched its initiative to write-off the loans of over 150 defaulting borrowers. This was carried out in consideration of their special circumstances and the challenges faced due to the current situation. Borrowers have been chosen based on stringent criteria to support those most in need and included the elderly, retirees, widows and people with special needs.

Enhance Customer Experience and Support Innovation

During the past year 2020, OAB has continued to develop its digital infrastructure and provide advanced solutions to enhance the overall customers' experience. In the first quarter of the year, the Bank opened the first Innovation Lab in the local banking sector to provide a professional platform to nurture talents in the financial technology world including students, employees and companies operating in this field. The Bank has also entered into several partnerships to support this approach with experts in the field of technology, both within and outside the Sultanate.

Omanization & Talent Management

The Bank's policy is based on providing the opportunity for its talented and distinguished employees in various disciplines through systematic programs and plans. These are designed to prepare them to take on supervisory and leadership positions as part of the succession plans. The talent management strategy, the core of the Human Resources Division at OAB, includes the use of various scientific and learning methods and focuses on the practical side in addition to the investment in modern technologies to establish a culture of learning and develop performance. As a result of this clear focus, the Bank has maintained one of the highest Omanisation rates in the sector exceeding 96%, as well as maintained an Omanization ratio of 85% in the top management level.

Financial Overview

The Financial statements have been prepared in accordance to International Financial Reporting Standards (IFRS)), the requirements of the Commercial Companies Law of 2019, the Capital Market Authority (CMA) of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO). Readers of such financial reports must note that the 2019 Balance Sheet includes the assets and liabilities of standalone OAB SAOC with its Islamic window (Al Yusr), while the Balance Sheet of 2020 includes both consolidated (OAB SAOG and AIB SAOC) and standalone OAB SAOG without Al Yusr. Similarly, Profit & Loss statement for 2019 reflects the standalone results of OAB SAOC with Al Yusr whereas consolidated results of 2020 reflects the results of standalone OAB SAOG including 6 months results of Al Yusr and AIB SAOC from 1st July 2020 to 31st Dec 2020.

The Bank posted a consolidated net profit of RO 14.2 million for the financial year ended 31 December 2020, compared to RO 32.6 million reported during the same period in 2019, a decrease of 56 per cent.

Net consolidated interest income from conventional banking and net income from Islamic financing stood at OMR 80 million for the financial year ended on 31 December 2020, compared to OMR 75 million for the same period in 2019, reflecting an increase of 7 per cent through a balanced growth in assets and maintaining the margins.

Non-interest income amounted to OMR 20.9 million for the financial year ended on 31 December 2020, as compared to OMR 17.9 million for the same period in 2019, an increase of 17 per cent mainly due to the consolidation of the net income from Islamic Banking of Alizz Islamic Bank.

Operating expenses for the financial year ended on 31 December 2020 reached OMR 65.4 million, compared to OMR 48.7 million for the same period in 2019, an increase of 34 per cent. The operating cost of 2020 includes a provision for operating loss of OMR 6.2 million on account of the Fraud incident reported by the Bank on 22nd December 2020. The investigation is underway in cooperation with the concerned authorities to take appropriate legal action. We had emphasized that the incident will not affect our customers, and that the Bank is dealing with this issue with a high level of seriousness and professionalism to protect the rights of all its stakeholders. We have notified the insurance companies and will use all available means to recover the amount.

Net impairment charge for credit and other losses for the financial year ended on 31 December 2020 amounts to OMR 17.7 million as compared to OMR 5.5 million for the same period in 2019. This increase is mainly due to the additional provisions built by management due to the current economic environment and stress on the business.

Net loans and advances, including Islamic financing receivables, increased by 31 per cent to OMR 2,635 million for the financial year ended on 31 December 2020, compared to OMR 2,006 million as of 31 December 2019. The increase in the loan and financing book is mainly the result of the acquisition of Alizz Islamic Bank and the consequent consolidation of accounts.

Customer deposits, including Islamic customer deposits, stood at OMR 2,755 million by the end of December 31, 2020, which as an increase of 38 per cent compared to OMR 1,998 million as of 31 December 2019. Similarly, this increase is mainly attributed to the acquisition of Alizz Islamic Bank.

Sustainability

Given the current situation, most large-scale events and volunteering initiatives have been cancelled or postponed. Therefore, OAB has accelerated a number of its online initiatives to help those who need it most. Through OAB ATMs and the OAB Online App, we continue to encourage donations to the Ministry of Health and six other charities to help those in need.

In August 2020, we supported a virtual fundraiser organized by the Environmental Society of Oman (ESO). OAB is proud to support ESO's work for many years, as they are the only non-profit organization in Oman dedicated to conserving the environment.

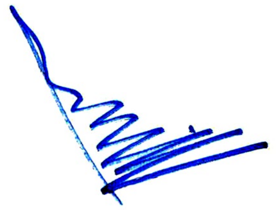
OAB launched its first eco-friendly desk calendar for 2021, made entirely from recycled paper and vegetable-based inks. It was developed in collaboration with several talented Omani photographers to promote their work.

During the past year, the Bank has launched its future plan to reduce its carbon footprint by measuring its environmental impact in various fields, with the objective to find more sustainable solutions.

Conclusion

On behalf of the Board of Directors, I would like to thank all our stakeholders for their continued confidence and their commitment to Oman Arab Bank. As our nation progresses through these unprecedented times, the Bank continues to support the Government of Oman in its efforts to keep the Sultanate safe and progressive. I would like to thank the executive management of the Bank and all its employees for their hard work during these exceptional circumstances to achieve the desired goals. We also extend our thanks and appreciation to the Central Bank of Oman, Capital Market Authority and all government entities for their efforts and continuous support for the banking sector in the Sultanate. We immensely appreciate the role that the Government of Oman has played, especially regarding the various measures taken to manage the current financial crisis.

In conclusion, we are delighted to extend our sincerest gratitude to His Majesty Sultan Haitham bin Tarik – may the Almighty protect and preserve him – for his wise leadership to ensure the sound vision of the future of this country. May the Almighty bless him as he continues to lead Oman and all its people.



Rashad Al Zubair
Chairman

Board of Directors

Mr. Rashad Al Zubair
Chairman

Mr. Wahbe Tamari
Deputy Chairman

Ms. Randa Sadik
Director

Mr. Abdulaziz Al Balushi
Director

Mr. Walid Samhouri
Director

Mr. Imad Sultan
Director

Mr. Nasri Malhamé
Director

Mr. Ghassan Tarazi
Director

Mr. Yasir Aqil Badri
Director

Auditors report on Corporate Governance

KPMG LLC
Children's Public Library Building
4th Floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOG

Agreed upon procedures on Code of Corporate Governance (the "Code") to assist in compliance of requirements prescribed in the Capital Market Authority ("CMA") Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code")

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' Corporate Governance Report of Oman Arab Bank SAOG (the "Bank") as at and for the year ended 31 December 2020 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code").

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the Code as issued by the CMA and are summarized as follows:

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2020.

   With respect to procedure 2 above, we inquired from and obtain written representation from management and those charged with governance on completeness of information related to non-compliances with the Code for the year ended 31 December 2020.

CR No. 1358131
Tax Card No. 8063052

We report our findings below:

As a result of performing the above procedures, we have no exceptions to report.

The above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements respectively and consequently, we do not express any assurance on the Report. Had we performed additional procedures, or had we performed an audit or a review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not be used for any other purpose. The report relates only to the accompanying corporate governance report of the Bank to be included in its annual report for the year ended 31 December 2020 and does not extend to any financial statements of the Bank, taken as a whole.

15 March 2021

KPMG LLC

KPMG LLC
P O Box 641, PC 112
Shatti Al Qurum
Sultanate of Oman
CR.No: 1358131

Corporate Governance Report

OAB’s approach to Corporate Governance

Framework and Approach to corporate governance and responsibility

The Board of Directors is committed to maintaining the highest standards of corporate governance, and also believes that corporate governance is related to owning a set of values and behaviors that govern the daily activities of the bank, these values and behaviors that ensure transparency and fair dealing and protect the interests of all stakeholders in the bank, including customers, shareholders, employees and society. In this context, the approach followed by the Board of Directors is to view governance within the broader framework of corporate responsibility and regulatory oversight.

A true adherence to the principles of corporate governance is an important indicator of the good performance of the bank as a business. Therefore, this adherence is necessary and fundamental to the sustainability of the bank's business and enhancing its performance.

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

- Review and improve corporate governance practices.
- Monitor global developments on best practices in corporate governance
- Contribute to developing the principles of good governance at the local level by participating in discussions, programs and seminars aimed at developing this field.

Our Governance Standards – Principles and Processes

At Oman Arab Bank, we believe that the best approach that can be followed is to be guided by principles and practices that achieve the interests of stakeholders and partners, with full adherence to the letter and spirit of the law issued by the Capital Market Authority (CMA), guidelines issued by the Central Bank of Oman (CBO) and corporate governance regulations issued by the Capital Market Authority (CMA).

This statement will focus on corporate governance in two parts. The first part discusses the general principles of corporate governance adopted by the bank while the second part provides a specific disclosure.

Where the members of the Board of Directors believe that the first part and the second part together are in accordance with the requirements of the code of corporate governance issued by the Capital Market Authority.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2020.

Corporate Governance - Part 1

As required by Circular (G/10/16) Code of Corporate Governance issued on 1 December 2016 by the Capital Market Authority, we have included the following contents:

1. The Board – putting governance into practice.
2. Board Committees and their role.
3. Governance and independence oversight.
4. Wages and remuneration scheme for the executive management.
5. Communication with shareholders, regulators and the market.

The Board – putting governance into practice.

First: Role of the Board

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

- Ensure that business is conducted with transparency and integrity.
- Provides strategic guidance and approval of operating strategies for the bank.
- Ensure that appropriate risk management controls and reporting mechanisms are maintained.
- Monitor management and financial performance.
- Review and approve the bank's quarterly and annual financial reports.
- Approve the work plan and budgets.
- Selection and evaluation of the Chief Executive Officer (CEO) and members of senior management.
- Planning for succession in executive management.
- Determining CEO remuneration and recommending the directors' remuneration to the shareholders for approval at the Annual General Meeting.

1- Board size and Composition

The bank's board of directors is composed of (9) non-executive members, in accordance with the directives of the Central Bank of Oman and the relevant regulations of the Capital Market Authority. The ninth member was appointed during the board meeting held on 14 December 2020 and was approved by the regulatory authorities in January 2021 until convening the closest general assembly.

The current composition of the Board of Directors and its committees is illustrated in Part 2 of this statement.

2- Selection and Role of the Chairman

The Chairman is a non-executive director, appointed by the Board. The Chairman's role includes but not limited to:

- Promoting high levels of governance within the Board and the bank and ensuring that members are familiar with the Code of Corporate Governance.
- Ensure that the Board members are fully informed of the conditions of their appointment, duties and responsibilities, and follow up on their performance of the tasks assigned to them.
- Supervising the Board's development of a strategy for its work.
- Representing the Board in front of the public.
- The Chairman of the Board of Directors ensures that Board meetings are held at regular intervals throughout the year, documented with minutes of meeting for each meeting, in order to ensure the accuracy of the decisions taken, as well as recording the members 'personal views.
- The Chairman of the Board of Directors reviews and ensures the effective participation of the board members.
- Ensure that the Board's resolutions are implemented and followed up the same.

3- Board Independence

Having an independent Board is the key to the good corporate governance of the bank. The bank has the structures and procedures required to ensure the independence of the Board from the executive management. These include appointing an independent non-executive Director as Chairman of the Board and ensuring the presence of non-executive members who can provide special professional experience to the Board. There are four independent members, including the Chairman of the Board of Directors, as per the definition of the "independent director" in the circular issued by the Capital Market Authority on 1 December 2016.

4- Meetings and agenda of the Board

The Board officially meets at least four times a year. In addition, it meets whenever required to deal with specific issues requiring attention between scheduled meetings. The meeting agendas are set by the Chairman in consultation with the CEO to ensure that all major financial, strategic and risk areas are covered throughout the year. Copies of agendas were circulated to members prior to the meetings.

A list of the meetings that Board members attended for the last fiscal year will be included in Part 2 of this statement.

5- Attending the Annual General Meeting

The Directors attend the AGM to respond the inquiries of the shareholders.

6- Expertise of the Board

The current Board has a wide range of experiences that enable it to achieve the goals of the bank. The composition of the current Board of Directors was set out in the second part of this report, with details on the experience of each member and other administrative positions he occupies, and this is shown in the annual report.

7- Nomination and Appointment of New Directors

Members of the Board of Directors are elected by the shareholders during the General Assembly for a period of three years. The Nomination and Remuneration Committee of the Board reviews and evaluates the skills of the candidates against the criteria stipulated by the Central Bank and the Capital Market Authority.

After electing a member, he receives a briefing, according to his specializations, about the Bank's business, strategy, and current issues presented to the Board.

The term of the current Board of Directors expires in March 2022.

8- Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual members. The review is carried out by an independent advisor (a third party) appointed by the annual general assembly in accordance with a frame of reference and standards set by the board or the General Assembly.

9- Board Access to Information

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

Second: Board Committees

The powers and responsibilities of the board committees are subject to the committee's related powers, as approved by the Board of Directors. During 2020, the Board reviewed the formation of committees after appointing new Board members in order to enhance the role of the Board, as well as segregating certain functions to adopt best practices in corporate governance.

1- Operation of the Committees

Each committee has the right to access the data and information it needs, including direct access to employees and advisors. Senior managers and other employees are invited to attend committee meetings as necessary. All members receive the committee minutes of meeting and have access to all committee minutes of meeting.

2- Composition and Independence of the Committees

Committee members are selected according to the skills, experience and other characteristics they possess that contribute to the committee's achievement of its objectives. All committees currently consist of non-executive members.

3- How the Committee reports to the Board

Minutes of all committee meetings are included in the agenda of the first full meeting of the Board of Directors following the committee meeting, and when necessary, the Chairman of the concerned committee may also provide a verbal report.

4- Brief Terms of Reference of Board Committees

a) Credit Committee

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

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

b) Board Audit Committee

The primary responsibility of the audit committee is to assist the board in fulfilling its responsibilities regarding reporting financial and non-financial reports, as well as internal control, and to ensure the independence and effectiveness of external and internal audit activities, in addition to any other matters referred to it by the board. The responsibilities of the committee include:

- Approval of the scope of work of the internal audit team scheduled for the year.

- Reviewing and approval of the scope of work of the external auditor scheduled for the year.

- Reviewing accounting policies to ensure compliance with relevant laws, regulations and accounting standards, and recommend any proposed changes to the Board for approval.

- Approval of the protocols governing the provision of other services by the external auditor that are not related to auditing, and which fall outside the scope of the external audit work to be performed, in order to ensure the independence of the auditor.

- Supervising and reviewing the performance of the internal audit function annually.

- Following up on processing and implementing the recommendations of the external and internal auditors.

- Following up the role of the internal audit and the external auditor in reviewing information technology systems and applications and their security.

- Ensuring compliance with international accounting standards implemented in the Sultanate of Oman.

- Supervising the preparation of the bank's financial statements and their compliance with International Financial Reporting Standards (IFRS) and other applicable regulations.

c) Compliance and Risk Committee

The primary responsibility of the Board Compliance and Risk Management Committee is to assist the Board in fulfilling its responsibilities with respect to risk management strategies and frameworks (including credit, liquidity, market, operational risk, etc.) as well as compliance and regulatory issues.

The responsibilities of the Committee include:

- Assisting the Board in determining the level and risk policies of the Bank.
- Developing a risk management framework for all the Bank’s operations, so that it covers strategic risks, market, liquidity, credit, operational risks and reputation risk on an ongoing basis.
- Ensuring that risk management frameworks, including policies, procedures and controls, accurately reflect the Bank's strategy, risk reduction, acceptable practices and legal and regulatory requirements.
- Enhancing awareness of risk management in all departments of the Bank.
- Reviewing strategy, plan and budget for risk management functions.
- Reviewing the assessment of the Bank's risk profile to understand the main risks affecting the bank and submitting its recommendations to the board for approval.
- Reviewing the capital adequacy assessment process and risk management strategy and submitting recommendations to the Board in this regard.
- Reviewing regulators' reports on the adequacy of the bank's risk management frameworks.
- Reviewing the adequacy of the bank's general insurance policies established by the management, as well as insurance related to board members and senior employees, and recommending to the Board of Directors with regard to insurance for employees.
- Monitoring the effectiveness of compliance with all applicable laws and regulations.
- Reviewing the level of the bank’s commitment and ensure that it is consistent with the Bank’s objectives and strategies, as well as any regulatory or legislative requirements.
- Reviewing any proposed legislative or regulatory changes, the impact of these changes on the Bank’s business, and the internal policies and controls that must be activated to match these changes.
- Approving the Compliance Department's charter and reviewing it annually to update it as needed.

d) Nomination and Remuneration Committee

The purpose of the Nomination and Remuneration Committee is to assist the Board of Directors in fulfilling its responsibilities related to nominating members of the Board of Directors with high competence and skills without breaching the applicable regulations in this regard, and to assist the Board in creating the remuneration policy and incentives granted to employees and to comply with the relevant employment laws and regulations. It does this by ensuring that the Bank has adequate remuneration and recruitment systems in place and monitoring their effectiveness. The tasks of this committee includes:

- Submitting recommendations to the Board of Directors on the appointment of the Bank’s CEO.
- Prepare key performance indicators for the CEO of the Bank and review them on an annual basis in order to review the total remuneration he is entitled to and recommend it to the board of directors.
- Approving the appointment of the executive management team based on the nomination and recommendation of the CEO, with the exception of the head of the internal audit department, the head of the compliance department, the head of the risk department and the legal advisor of the bank, as the responsibilities for these appointments fall within the responsibilities of other board committees and / or the Board of Directors as a whole.
- Approving the remuneration of the executive management team, including salaries and other benefits.
- Ensuring that the bank has an appropriate remuneration policy, as the committee should review these policies and make recommendations to the Board to make any amendments to them.
- Reviewing the human resources plan and aligning the plan to achieve the bank's strategies.
- Ensuring that the bank has an appropriate plan in terms of training, career development and succession plans.
- Reviewing “Omanisation” plans and determining the jobs that Omanis must occupy and the timetable for implementing these plans.

Composition of the Committees and their Meetings

The membership of the current committees and their meetings are explained in the second part of this disclosure, and that the minimum number of members of the committees from the board of directors, and the minimum number of its annual meetings should not be less than four meetings, except for the Nominations and Remuneration Committee, its meetings shouldn’t be less than two meetings a year.

5- Audit of Governance and Independence

The Board is committed to three basic principles:

- The bank issues true and fair financial reports.
- Ensure that there are independent auditors to serve the interests of shareholders by ensuring that they are aware of the real financial position of the bank.
- Ensure that there are comprehensive accounting and auditing standards in line with the applicable accounting standards and policies.

6- Executive Pay and Reward Schemes

Overview

Through rewarding the CEO and other members of senior executive management, the bank aims at linking the benefits with performance, so that it provides a healthy and stimulating work environment for competencies to join and continue with the Bank. The Bank's policy is to link income to performance through:

- Determine the fair market value of each executive position in a highly competitive market.
- Reward the individual according to his abilities and experience.
- Recognition of individual performance.
- Establish a healthy environment to retain operational competencies.

To achieve these goals, the Bank has put in place a fair and transparent policy to reward members of the executive management in proportion to market rates.

Who decides how individuals should be paid and rewarded?

The Board of Directors submits its recommendations regarding remuneration and sitting fees for approval by the shareholders at the General Assembly meeting. The Nomination and Remuneration Committee recommends the proposed bonus amount for the CEO for approval by the Board of Directors.

The CEO, in turn, recommends the proposed salary schedule and bonuses for members of the Senior Executive Management, in line with the average wages in the market, and his proposal is approved by the Nomination and Remuneration Committee.

The remuneration of the members of the Board of Directors during the 12-month period ending on 31 December 2020 in addition to the remuneration of the members of the Executive Management are shown in Part 2.

Corporate Governance - Part 2

1. Profiles of members of Board of Directors

Mr. Rashad Al Zubair- Chairman

Rashad Al-Zubair is the Chairman of The Zubair Corporation, a leading business group in the Sultanate of Oman, with business interests extending to Automotive, Energy & Logistics, Engineering Construction & Contracting, Financial Services, Manufacturing and Real Estate & Hospitality. He steers the affairs of the Board, and acts as its representative in major matters and significant business relationships. Before taking over his current position in 2010, he has been President of Zubair Automotive Group for a number of years.

Rashad has been the Chairman of Oman Arab Bank since 1999. He is also the Vice Chairman of Barr Al Jissah Resort Co SAOC, owner of a pioneering tourist resort in Oman, which is operated by Shangri-La. He is the Vice Chairman and founding Member of Muscat University.

He has held leadership positions in several prominent firms and companies. He was the Deputy Chairman of the Oman Business Council and member of its founding Directors. Until recently he was the founding Chairman of Oman German Friendship Association. He also served as Director of the Capital Market Authority, the regulatory body of the Muscat Securities Market and is a member of the newly formed Oman Centre for Governance & Sustainability.

Mr. Wahbe Tamari- Deputy Chairman

Mr. Tamari is currently the Chairman of the Board of Arab Bank Switzerland, Arabia Insurance Company and Atmar & Partners S.A, a company established in 2003 in Switzerland to provide family wealth management services to high net worth individuals. He leads numerous projects in financial services and real estate sectors.

He is also an active member of the board of Arab Bank Plc, Sucafina SA, Solidere International, as well as a number of family businesses. His deep understanding and passion for commodities began with his internship at Merrill Lynch London in 1982; later he joined Sucafina SA, a company belonging to his family which he managed between 1988 and 2004. Sucafina is a leading sustainable Farm to Roaster coffee company, with a family tradition in commodities that stretches back to 1905. Today, with more than 1,046 employees in 32 countries, the Group is one of the leading coffee trading houses in the world, and one of the few focused entirely on coffee. Their extensive supply chains span from producer-facing export operations to destination sales offices around the world.

Mr. Tamari is an active member of YPO (Young President Organization) having previously taken the lead of their Alpine Chapter and serves on a variety of philanthropic councils that mainly focus on the education of young people. He sits on the board of LIFE (Lebanese International Finance Executives) an organization that provides guidance to Lebanese CEOs to work together towards a brighter future. He was also a Board member of the Tamari Foundation whose mission is to be a catalyst for change through a variety of educational initiatives and projects focusing on human well-being within developing nations.

He is a graduate of Webster University Geneva with a BA in Management and a bachelor's degree in Management from Harvard Business School in 2013 and he is the owner and president of OPM 43.

Ms. Randa Sadik- Board Member

A Board Member of Oman Arab Bank and a Deputy Chief Executive Officer of Arab Bank since July 2010. Ms. Sadik has broad international banking experience built over 30 years.

Before joining Arab Bank, Ms. Sadik served as Group General Manager for Intentional Banking Group - National Bank of Kuwait, responsible for the bank's international and regional network of branches and subsidiaries.

Ms. Sadik is also the Chairperson of Arab Tunisian Bank in Tunis, Vice Chairman of Arab Bank - Australia, a board member of Arab Investment Bank S.A.L.-Lebanon, Chairman of Al Arabi for Finance Holding Company S.A.L.-Lebanon and President of the Management Committee of Al-Arabi Investment Group. Ms. Sadik holds a Master degree in Business Administration from the American University of Beirut (AUB).

Mr. Abdulaziz Al Balushi- Board Member

Mr. Abdulaziz Mohammed Al Balushi is the Chief Executive Officer of OMINVEST with more than 34 years of professional experience and extensive knowledge in financial services industry globally.

Since joining OMINVEST in 2014, Abdulaziz worked with the Management team to execute the new vision of the company designed by the Board of the Directors. He also helped in the development of organizational culture and new structure and policies Under the leadership of Abdulaziz, the Management team successfully implemented the merger between OMINVEST and ONIC Holding to establish the largest listed investment company in the Sultanate of Oman. Abdulaziz and the Management team were responsible for several key initiatives in OMINVEST such as Initial Public Offering for a leading insurance company, National Life and General Insurance Co SAOG and development of its head office in the Business Centre of OMINVEST. In addition, he actively participated in the merger of National Finance and Orix Leasing as well as capital enhancement initiatives such as issuance of perpetual bonds in favour of OMINVEST. He successfully managed the merger between Oman Arab Bank and Alizz Islamic Bank resulting in listing of Oman Arab Bank in Muscat Securities Market as a public shareholding company.

Prior to joining OMINVEST, Abdulaziz was the CEO of Ahli Bank SAOG from 2007 to 2013 and was primarily responsible for converting a single product mortgage bank into a full-fledged commercial bank with assets worth more than USD 3 billion and shares worth more than USD 450 million. In November 2012, he was ranked as the "Second Best CEO in the Arab Banking World" by Forbes Middle East. In 2019, Abdulaziz received the award of "the Chief Executive Office of the Year" during the awards ceremony for banking and financial services by Oman Economic Review.

Abdulaziz holds Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow Chartered Institute of Bankers (UK). He Abdulaziz served in various Boards of companies across the Sultanate and he is Advisory Board Member in the college of Agricultural and Marine Sciences at Sultan Qaboos University.

Mr. Walid Samhouri- Board Member

Walid Samhouri is the Vice Chief Executive Officer – Regional Director of Arab Bank in Jordan. He has a vast banking experience for more than 32 years with Arab Bank where he worked in different geographies and handled various responsibilities in Corporate Banking, Credit, Banking Operations and Trade Finance.

Mr. Samhouri is also the Chairman of Arab Sudanese Bank-Sudan, a board member of Arab Tunisian Bank-Tunisia. He is also a board member of Jordan Loan Guarantee Corporation in Jordan. Mr. Samhouri holds a Master's degree in Economics from the University of Jordan.

Mr. Imad Sultan- Board Member

Mr. Imad Kamal Sultan is the Vice Chairman & Deputy Managing Director of W. J. Towell & Co. LLC, a leading family-owned corporation, since 2002, and is currently the Chairman of "Enhance Operating" and Towell Engineering Services Co. LLC.

He also serves as a Director on the Boards of Towell Auto Centre LLC, General Electric & Trading Company LLC, Towell Properties, Towell International Holding Company and Arjan Towell LLC. Formerly he served as a Director on the Boards of National Bank of Oman, Oman International Development & Investment Company SAOG. (Ominvest) and Oman Tennis Association among others. Mr. Sultan holds a Bachelor of Science in Business Administration degree in Marketing from the American University in Washington DC, USA and has is a member of the Young Presidents Organization since 2005.

Mr. Nasri Malhamé- Board Member

Serving as the CEO of Arab Bank (Switzerland) from 2009-2017, Mr. Nasri Victor Malhamé is a board member of various entities, including Banque Du Crédit National-Lebanon, Arab Tunisian Bank in Tunisia, AB Fund Managers-Guernsey, Ubhar Capital in Oman and Chambre de commerce Arabo-Suisse, Geneva.

He has previously worked at B.A.I.I. Paris, an affiliate of BNP, after that he joined BNP Paribas-Geneva as an Executive Director in charge of Private Banking and Trade Finance for Southern Europe and the MENA region, and was appointed as a member of the Executive Committee in 2000.

Mr. Nasri holds a Ph.D. In Banking and Management from Université Paris Dauphine and has set up his own consultancy firm, NVM Consulting.

Mr. Ghassan Tarazi- Board Member

Mr. Ghassan Tarazi is Group Chief Financial Officer at Arab Bank. He has over 30 years of experience in the fields of banking, auditing and financial control. Prior to joining Arab Bank, Mr. Tarazi was Audit Partner with KPMG.

Mr. Tarazi has been a board member of several banks over the years, including Arab Tunisian Bank – Tunisia, Arab National Bank – Saudi Arabia, and Europe Arab Bank – United Kingdom.

Mr. Tarazi holds an MBA degree from the University of Leuven, Belgium, and Bachelor's degree in Economics from Acadia University, Canada. He is a Certified Public Accountant and a Certified Bank Auditor from the United States.

Mr. Yasir Badri - Board Member

Mr. Yasir Badri is part of the Direct Investments team at Mubadala Investment Company – a sovereign investment arm of the Abu Dhabi government, managing a diverse portfolio of assets and investments worth more than USD 230 billion in the UAE and abroad.

Mr. Badri has been with Mubadala since 2009 and currently serves as a Vice President in the Financial Services Unit, focused on executing Mubadala's investment strategy in the space through fund, private, and public investments.

Prior to his role in Financial Services, Mr. Badri worked in the corporate Mergers and Acquisitions team, responsible for providing transaction execution support to multiple investment units at Mubadala. Before that, he worked in the financial risk management department under Mubadala's corporate treasury.

Mr. Badri holds a bachelor's degree in Finance Sciences from the American University of Sharjah (AUS). He is also a certified Chartered Financial Analyst (CFA) since 2013.

2. Board Committees

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

Table 1

Director Name	Independent/ Independent	Committee	Executive in OAB	Representing
Mr. Rashad bin Mohamad Al Zubair	Independent	CC - Chairman RCS – Deputy Chairman	No	Self
Mr. Wahbe Tamari	Non-Independent	RCS – Chairman	No	Arab Bank PLC
Mr. Imad Sultan	Independent	BAC - Deputy Chairman CRC – Member	No	Self
Mr. Abdul Aziz Al Balushi	Non-Independent	RCS – Member CC- Member	No	OMINVEST
Ms. Randa Sadik	Non-Independent	CC- Deputy Chairman RCS - member	No	Self
Mr. Walid Samhouri	Non-Independent	CRC- Chairman CC- Member	No	Self
Mr. Ghassan Tarazi*	Non-Independent	CRC- Deputy Chairman BAC- Member	No	Self
Mr. Nasri Malhamé *	Independent	BAC – Chairman	No	Self
Mr. Yasir Badri*	Independent	-	No	Self

* Mr. Ghassan Tarazi and Mr. Nasri Malhamé joined the Board on 13 July 2020 and Mr. Yasir Badri was approved on 14 December 2020.

Note 1: Mr. Mulham Al Jaraf, Ms. Nadya Talhouni and Mr. Hani Al Zubair resigned from the Board on 13 July 2020.

The members of the Committees together with the number of meetings held in 2020 and attended by each member are set out in the Table 2.

Table 2

Director	Board Meetings		Credit Committee		Audit Committee		Compliance and Risk Committee		Remuneration and Selection Committee	
	(Note 1)		(Note 2)		(Note 3)		(Note 4)		(Note 5)	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Rashad Muhammed Al Zubair	7	7	4	4	-	-	-	-	2	2
Wahbe Tamari	7	7	-	-	4	2	-	-	2	2
Hani Bin Muhammed Al Zubair	7	4	-	-	-	-	8	2	-	-
Abdul Aziz Bin Al Balushi	7	7	4	4	-	-	8	1	2	2
Walid Samhouri	7	7	4	4	-	-	8	8	-	-
Randa Sadik	7	7	4	4	-	-	-	-	2	2
Imad Sultan	7	7	4	1	4	2	8	6	-	-
Mulham Bin Basheer Al Jaraf	7	4	-	-	4	2	-	-	-	-
Nadya Talhouni	7	4	-	-	4	2	-	-	-	-
Ghassan Tarazi	7	3	-	-	4	2	8	4	-	-
Nasri Malhamé	7	3	-	-	4	2	-	-	-	-
Yasir Aqil Badri	-	-	-	-	-	-	-	-	-	-

Directors' attendance record:

Note 1 Board Meetings were held on - 27-January, 21-April, 15-June, 13-July, 20-July, 10-November and 14-December during 2020.
Note 2 Credit Committee meetings were held on - 26-April, 31-May, 27-August, and 5-November during 2020.
Note 3 Audit Committee meetings were held on 26-January, 20-April, 19-July and 5-November during 2020.
Note 4 Compliance and Risk Committee were held on – 25&26-March, 24&26-August, 2&4-November and 24-December (2 meetings) during 2020.
Note 5 Selection and Remuneration Committee meetings were held on 13-July and 13-December during 2020.

3. Wages and Remuneration matters

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

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

Table 3

The following remuneration and sitting fees for the year 2019 were paid during the year 2020:

Director's Name	Remuneration RO	Total Sitting Fees RO	Total RO
Rashad Bin Muhammed Al Zubair	30,000	4,500	34,500
Wahbe Tamari	16,000	5,000	21,000
Hani Bin Muhammed Al Zubair	16,000	3,000	19,000
Abdul Aziz Al Balushi	16,000	6,000	22,000
Walid Samhouri	16,000	5,500	21,500
Randa Sadik	16,000	4,500	20,500
Imad Sultan	16,000	4,000	20,000
Mulham Al Jaraf	16,000	4,000	20,000
Nadya Talhouni	16,000	4,000	20,000
Total	**158,000**	**40,500**	**198,500**

The remuneration paid to the top five executive management members of the Bank for 2020 is RO 1,188,161 (2019: RO 1,325,769).

No stock options are available to Directors or the executives of the Bank. The Executives are required to provide 30-60 days' notice should they wish to resign. No severance fees are payable to the key management personnel in the event of termination of employment.

4. Profile of Key Executive Management Members

Mr. Rashad Al Musafir
Chief Executive Officer

Rashad Al Musafir is Chief Executive Officer of Oman Arab Bank (OAB). Al Musafir has over twenty years of in-depth industry experience and a proven executive management track record.

Al Musafir has over 20 years in managing financial organisations in Oman. Before joining OAB in 2016, he was the Acting CEO of Bank Sohar, where he served for a period of nine years. During his tenure at Bank Sohar, he held various leadership positions, including Chief Financial Officer and Acting Head of Compliance. Prior to Bank Sohar, Al Musafir held leadership roles with several other organization including Al Madina Gulf Insurance Company, Oman International Bank and the Central Bank of Oman. He was also a part time instructor at the International Training Institute teaching specialized certifications such as Certified Internal Auditors (CIA) and Certified Management Accountants (CMA.)

Al Musafir has been the Chairman of the National Aluminum Products Company (NAPCO) since 2017 till 2020. And had earlier been the Chairman of the Audit Committee of NAPCO between March 2014 and March 2017. He has also formerly served as a Board member in the Oman Tennis Association and was a member of the Finance, Banking and Insurance Committee at the Oman Chamber of Commerce and Industry (OCCI). Currently he is a Board Member in Oman Bankers Association.

Al Musafir holds a Bachelor of Arts Degree in Economics and a Bachelor of Science Degree in Finance from Boston University. He has also successfully completed the examinations for Certified Public Accountant (CPA) certifications from the State of Maine, and has completed various management programs, including the General Management Program (GMP) from the Harvard Business School.

Ms. Asma Al Zadjali
Head of Banking Operations Group

Ms. Al Zadjali was appointed Head of Banking Operations Group in May 2019. Holding a Master's in Business Administration from the University of Strathclyde and serving as the Chairperson of Strathclyde Oman Alumni, Ms. Al Zadjali has over 19 years of experience working in large companies and banks in the region. In her time at the Bank, she has been instrumental in the centralisation of Retail Banking, Corporate Banking; thereby ensuring asset quality and bringing in the necessary changes to establish better control and improving the turnaround times. She has also led a variety of support units for centralized operations, corporate support services, credit management, collection, legal affairs, operations control, and comprehensive transformation. Furthermore, she graduated from the National CEO Programme (NCP) in May 2018.

Kartik Natarajan
Head of Strategy

Kartik Natarajan is the Head of Strategy since October 2018. He was formerly the Chief Financial Officer in Oman Arab Bank since 2005. Kartik is a finance professional with over 23 years of experience in the banking with expertise in planning and financial control. Kartik previously served as Senior Manager in the Financial Control Division in National Bank of Oman from 1996-2005.

He is an Associate of Institute of Chartered Accountants of India and an Associate Cost Accountant in Institute of Cost Accountants of India. He holds a Bachelor's Degree in Commerce from Loyola College, India and Diploma in Computer Programming & Applications.

Al Salt Al Kharusi
Head of Corporate & Institutional Banking Group

Al Salt Al Kharusi is the Head of Corporate Banking in Oman Arab Bank since 2015. He holds BSc. (Joint Honors) in Business Administration Management & Information Systems and MBA degree from Strathclyde University, UK. He joined HSBC Bank Oman as Credit Officer in 2001 moving his way up to become the Head of Corporate Banking in 2013. He has won a number of awards such as regional HSBC super achiever award in the Middle East region in 2007, super achievement awards with HSBC for highest cross sales and income growth and net return generated for the Bank in Corporate Banking in 2006 & 2007.

He was involved in many training courses and workshops that helped advance in his career. Some of the training courses include Finance of International Trade, Asset & Liability Management Course, and Global Relationship Management Workshop.

Sulaiman Al Hinai
Head of Treasury, Investments & Government Relations

Sulaiman Al Hinai was appointed as Head of Treasury, Investments & Government Relations in Oman Arab Bank since July 2017. He is a treasury professional with regional expertise and experience spanning twenty three years in commercial banking and treasury with various local and regional banks including, Doha Bank, Qatar, Oman International Bank and Ahli Bank SAOG, Oman.

He has earned a Banking Diploma in 2001 from Arab Academy for Banking and Financial Sciences in Jordan. He has also involved in various courses and workshops that helped elevate him in his career

Rashad Al Shaikh
Acting Head of Retail Banking Division

Rashad Al Shaikh the Acting Head of Retail Banking Division in Oman Arab Bank and has over 17 years of banking experience in various fields from Corporate Banking to Project Finance, Investment Banking and Retail Banking. He has Extensive experience in policy setting and well experienced in negotiating commercial agreements. He worked with a number of international banks on various mandates that have been concluded successfully in the area of advisory.

5. Internal Control Review

The Board of Directors takes utmost care to maintain a strong regulatory environment and all internal controls, including financial and operational controls, compliance and risk management to safeguard the interests of shareholders and the Bank's assets.

The Board has established a management structure that clearly defines functions, responsibilities, reporting systems and policy.

Profile of the Internal Audit Department Charter

The Internal Audit Department charter aims to work professionally, independently and objectively in helping the management to achieve the bank's objectives, adding value to the establishment and improving its operations and helping it to carry out its responsibilities efficiently and effectively, by verifying the validity and integrity of the Bank's various activities and compliance with laws, regulations, instructions and policies, plans developed and determining their adequacy, in addition to adhering to international standards of professional practice of internal audit and the Code of Ethical Duties which does not conflict with the bank's laws, and regulations and adherence to a disciplined systematic approach to assess and improve the effectiveness of both risk management, control and governance processes.

6. Related Parties Transactions

The details of all business operations that a member of the Board of Directors and/or other related parties shall be submitted to the board for consideration and approval. The board members should not participate in discussions or voting on such matters.

Details of related parties’ transactions are submitted to the Board of Directors on an annual basis for consideration and approval as part of the Bank's annual financial statements.

Details of all relevant parties' operations are also provided to shareholders as part of the financial statements submitted for approval at the Annual AGM.

7. Controlling and Managing Risk

Approach to Risk Management

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

The Bank’s main risk is divided into three main types of risk:

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

The bank recognizes that these risk categories are interlinked and therefore it takes an integrated approach to managing them. We have comprehensive risk principles that apply to each category of risk.

The risk management function aims at ensuring that:

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

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

(c) all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of our activities. In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks. He reports directly to the Compliance and Risk Committee of the Board.

8. Compliance

The Bank developed framework of Bank governance, which included governance policy, relations with the related parties, disclosure policy and professional code of conduct for both directors and employees. In addition, the Bank developed an induction program for the Directors to familiarize them with the legal terms, nature of work in the Bank, conducting various trainings to the Board and issued framework of the social responsibility.

Non-compliance of Corporate Governance and Penalties

CBO circular BM 1134 and Annexure 4 of the Code of Corporate Governance require the Bank to provide details of non-compliance. This includes any penalties imposed on the Bank by any statutory authority such as the CBO and CMA during the last three years. The Bank has complied with all regulatory requirements except for few instances during last three years. The Bank has taken necessary corrective action to ensure compliance in future.

The total penalties incurred during the past three years is RO 72,000 for non-compliance of CBO regulations relating to classification, errors in regulatory reporting, extension of repayment of personal loans and certain service charges exceeding the regulatory ceiling. The amount of penalty for the past three years are as follows:

Year	Amount RO
2020	28,000
2019	30,000
2018	14,000

The Bank had not appointed an independent dedicated company secretary to handle the Board and its Sub-committees related matters .

9. Means of Communicating with the Shareholders

The Board is committed to communicate all significant information about Bank's activities on regular basis.

The Bank publishes quarterly reports and uploads them to Muscat Securities Market website. All information about the Bank and its products, operations, quarterly and annual financial statements and profile are published on Banks website: www.oman-arabbank.com. This information is updated on regular basis. Furthermore, details of the financial results are communicated to the shareholders, upon their request.

The annual reports include comprehensive management report, regulation and management report. The management provides the analysts, press and investors with regular quarterly presentations. Such reports present Bank's performance and strategy.

10 Dividend Policy

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

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

11. Market Price Data

On 6 July 2020, Oman Arab Bank SAOC became a listed Bank and the name was changed from Oman Arab Bank SAOC to Oman Arab Bank SAOG. Consequently, the ordinary equity shares of the Oman Arab Bank SAOG were listed on Muscat Securities Market (MSM).

The following are the major shareholders who own more than 5% of the Bank's as at 31 December 2020:

Sr. No.	Shareholder	Percentage of ownership
1	Arab Bank PLC - Jordan	49.00%
2	Oman International Development and Investment Company (OMINVEST)	31.64%

OMINVEST is a public joint stock company listed on the Muscat Securities Market and Arab Bank Plc is a publicly held company and listed on the Amman Stock Exchange, Jordan. Various parties, including Trusts, hold the remaining 19.36%.

The high/low share price information of the Bank during the financial year ended 31 December 2020 and

Muscat Securities Market Financial Index movement is as follows:

Oman Arab Bank Share Price

Month	High	Low	Close
Jul-20	0.220	0.192	0.200
Aug-20	0.213	0.193	0.213
Sep-20	0.213	0.198	0.210
Oct-20	0.205	0.205	0.205
Nov-20	0.210	0.198	0.200
Dec-20	0.198	0.170	0.190

Index movement

Month	High	Low
Jul-20	5,707.420	5,441.850
Aug-20	6,150.980	6,088.460
Sep-20	6,142.740	6,126.360
Oct-20	5,627.590	5,618.280
Nov-20	5,788.250	5,588.520
Dec-20	5,745.880	5,559.440

12. Perpetual Tier 1 Capital Bonds

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

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

The Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The Bond under note (a) has First Call Date on 29 January 2022.

Bond under note (b) has the First Call date on 17 October 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman Regulations.

13. Subordinated debt reserve

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

14. External Auditors

KPMG was appointed as external auditor of the Bank for the fiscal year ended at 31/12/2020.

Certification of Auditors' Independence

The Board Audit Committee reviews the reports of the external auditors to ensure that they maintained their independence at the commencement and during the audit. The Board Audit Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

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

The shareholders of the Bank appointed KPMG as its auditors for 2020. KPMG is a leading firm providing Audit, Tax and Advisory services in Oman. It is part of KPMG Lower Gulf Limited which was established in 1973. KPMG in Oman employs more than 180 people, amongst whom are six partners and six directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 146 countries and territories and have 227,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms, a Swiss entity.

Audit fees

The professional fees paid or payable to KPMG for the financial year 2020 is RO 120,500 for their audit and related services.

Attendance at Annual General Meeting

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

15. Other Matters

The last Annual General Meeting was held on 4 March 2020. The meeting was conducted as per statutory requirements and was attended by the Chairman, Rashad Muhammed Al Zubair and following members of Board of Directors: Hani Muhammed Al Zubair, Walid Samhouri, Randa Sadik, Imad Sultan, Mulham Al Jaraf and Nadya Talhouni.

16. Acknowledgment

The Board of Directors acknowledges its responsibilities and confirms that the financial statements have been prepared in accordance with the applicable standards and rules. It believes that the Bank's internal controls are effective and there are appropriate procedures in place applicable to fulfill requirements of the charter.

The Board of Directors confirms that there are no material matters that could possibly affect the continuation of the Bank's ability to continue its operations during the next fiscal year.

Rashad Muhammed Al Zubair
Chairman

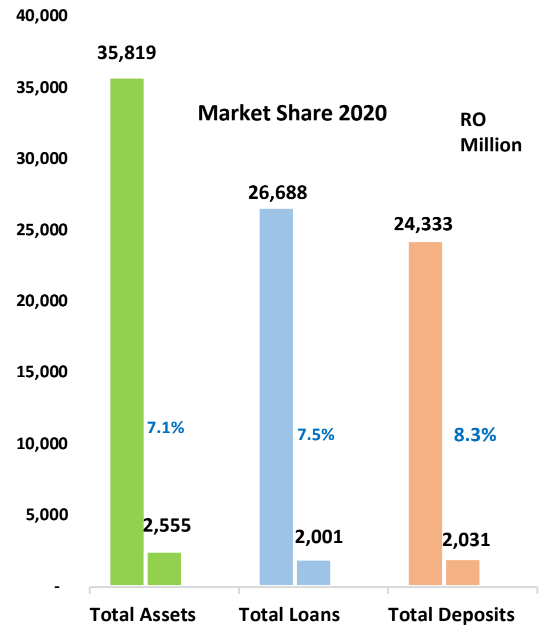
Rashad Al Musafir
Chief Executive Officer

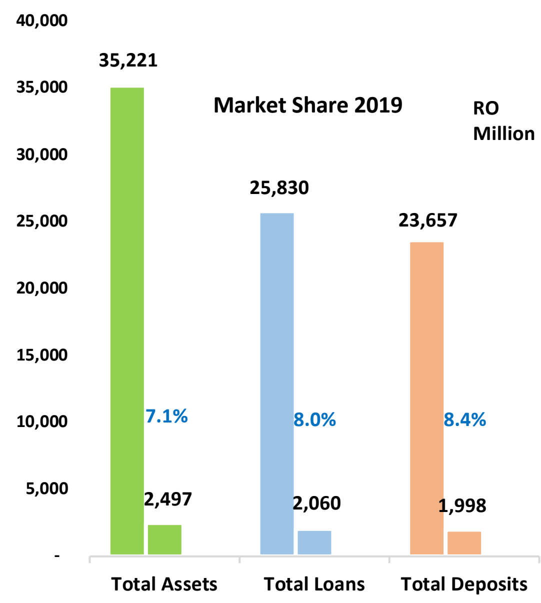
Management Discussion & Analysis

Industry Structure & Development

The banking industry in Oman is governed by the Banking Law issued by Royal Decree 114/2000, and various other regulations issued by the banking regulatory authority, the Central Bank of Oman (CBO). In addition, banks must also comply with the requirements of the Commercial Companies Law, as amended from time to time and necessary requirements of the Capital Market Authority (CMA). A summary of the banking sector performance for the year ended 2020, based on the latest publication and other statistics issued by the Central Bank of Oman is as follows:

1. Total assets of commercial banks grew by 1.7% from RO 35.2 billion at 31-Dec-2019 to reach RO 35.8 billion at 31-Dec-2020.
2. Loans and advances recorded growth of 3.3% reaching RO 26.7 billion at 31-Dec-2020 from RO 25.8 billion at 31-Dec-2019.
3. Customer deposits witnessed a growth of 2.9% to RO 24.3 billion at 31-Dec-2020 from RO 23.7 billion at 31-Dec-2019.
4. The loans to deposit ratio hovered at 105% as at 31-Dec-20 which is similar to the position as at 31-Dec-19.
5. The average deposit interest rate on Rial Omani deposits ended at 2.31% an increase of 0.29% compared to the previous year.
6. The average Rial Omani lending rates decreased to 5.48% down 2 bps from 5.50% at December 2019.





Economic Outlook

Outlook

The double impact of crash in oil price and COVID-19 pandemic has been a major setback to the economic growth of Oman and availability of resources. According to the International Monetary Fund (IMF), Oman's economy contracted by 6.4% in 2020. Oman's budget is based on the assumption that oil price will be at USD 45 a barrel (OMR 17.5) in 2021. This is a marginal rise of two per cent over last year's level.

The price of Oman oil in 2021 is also a full USD 20 lower (OMR 8) as compared to 2019, when it was USD 65 (about OMR 25) a barrel.

However, assessments by a number of financial institutions show oil prices are expected to climb slightly in 2021, compared to their decline in 2020, largely due to the COVID-19 pandemic.

The global economy is expected to recover gradually in 2021 which will result in an increase in oil price.

The International Monetary Fund's (IMF) October 2020 forecast expects oil prices to touch USD 46.7 in 2021, compared to the average price of USD 41.7 (OMR 16) in 2020.

However, economic activity and the pace of recovery will still be severely constrained by government austerity measures, which will restrict private consumption growth and weigh on investment sentiment. Meanwhile, despite a partial recovery in global trade, tourism inflows will remain weak in 2021, owing to greater risk aversion. As a result, the economy will still be much smaller in real terms in 2021 than in 2019.

Fiscal plan and forecast

• As per IMF, Oman real GDP is estimated to reveal gradual improvement of 1.8% in 2021 and strong recovery of 7.4% in 2022 amidst benefits of structural reforms and diversification.

• Government has proposed its Medium-Term Fiscal Plan (MTFP) to reduce fiscal deficits to sustainable levels. VAT implementation starting April 2021 to enhance non-oil revenue.

• Reforms undertaken in 2020 - Merging of Ministries, Pension Funds, subsidy reforms in Electricity & water sectors and formation of Oman Investment Authority (OIA) & Energy Development Oman (EDO).

• Oman Budget 2021 has projected fiscal deficit of RO 2.2 billion on the back of stable revenues, fiscal consolidation efforts and focus on priority expenditure.

• Inflation to increase to 3.9% levels in 2021 amidst VAT implementation.

• Investment spending in 2021 estimated at RO 5.1 million with OIA and EDO playing a critical role towards participation in local projects.

• Oman fiscal deficit is estimated at 5.4% in 2021 and 2.1% of GDP in 2022.

• MSM Corporate Earnings to recover in 2021 and 2022 driven by Industrial & Services companies.

Investment in Oman

The total Foreign Direct Investment (FDI) in the Sultanate at the end of the second quarter of 2020 reached OMR 15,440.0 million, recording an increase of 13.2 per cent compared to the same period of 2019 when it was OMR 13,642.0 million.

The foreign investment flow in Oman reached OMR1,797.9 million, according to the data on the preliminary results of the performance of FDI issued by the National Centre for Statistics and Information (NCSI).

Policy Trends

Short-term policy will revolve around managing the deep economic turmoil caused both by low oil prices and the ongoing impact of the pandemic. After an initial lockdown to contain the coronavirus, failure to contain the spread of the virus forced the government into further two-week curfews in late July and October. This highlights the precarious nature of Oman's coronavirus policy, and localized lockdowns are likely to be implemented intermittently in early 2021 in response to local flare-ups in infections.

The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. It remains unclear how the economic and social environment will evolve through 2020.

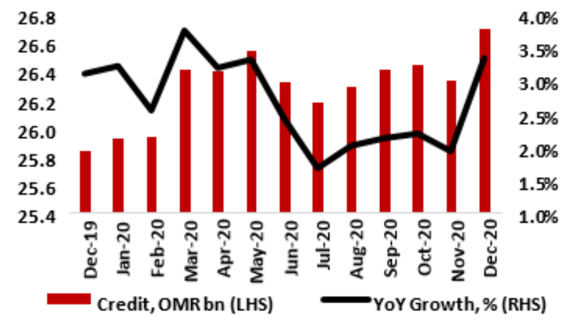
Economic activity in Oman has suffered due to the coronavirus and a national lockdown that commenced in late March 2020. Oman's economy is significantly concentrated and dependent on the price of crude oil. With global and domestic demand likely to remain subdued as coronavirus pressures persist and as lockdowns and restrictions on movement possibly continue, economic activity in Oman will likely remain lethargic going forward.

International Relations

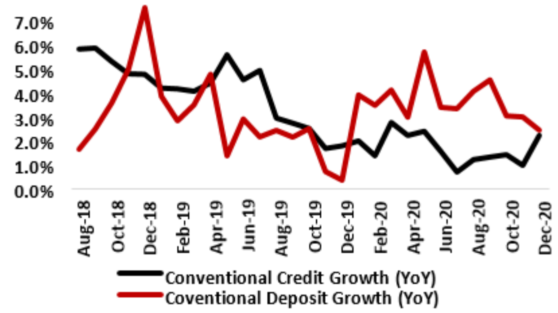
Oman's foreign policy will continue to focus on maintaining a balanced position in regional disputes, with the sultanate acting as a facilitator of conflict resolution. Sultan Haitham will be proactive and open to new ideas from a younger generation of ministers who are likely to accelerate reforms to the business environment and speed up fiscal rationalization.

Banking sector

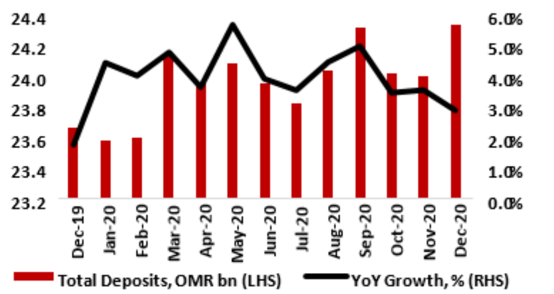
• Conventional credit picked up to +2.2%YoY from +1.0%YoY in Nov'20, +1.4%YoY Oct'20 and +1.3%YoY in Sept'20. Total conventional credit reached OMR 22.34bn (+OMR 26.4mn on MoM basis or +1.1%MoM).



• Conventional credit expanded on MoM basis largely on account of an 81.3%MoM increase in Government credit (+OMR 214mn) and a 2.1%MoM (+OMR 60mn) increase in Public Enterprises credit. Credit to non-residents decreased by about 0.1% (down OMR 0.2mn) and credit to Private Sector contracted 0.1%MoM (-OMR 23mn).

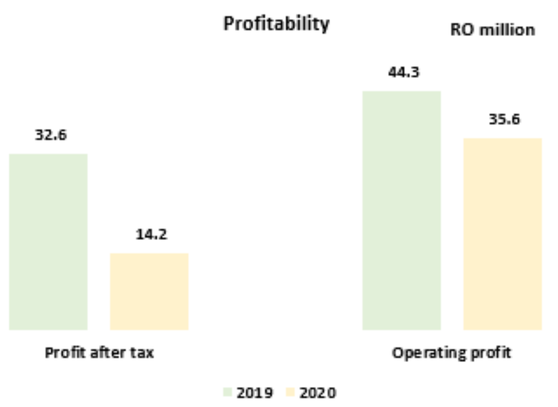


• Conventional deposits grew by +2.4% YoY. Total conventional deposits stood at OMR 20.54bn and the Loan to-deposit (LTD) ratio marginally declined to 103.6% as at Dec-20 compared to 104.7% as at Dec-19.



Discussion on Financial and Operational Performance

Net profit for the year ended 31 December 2020 is RO 14.2 million (2019 32.6 million), which is 56% lower than the previous year. The operating profit at RO 35.3 million (2019 44.3) is 20% lower than previous year.



The significant changes in income and expenses during 2020 were as follows:

- Net interest income decreased during the period by RO 2.3 million, which is a decline of 3%. The interest income increased by 4% but this has been offset by the increase in cost of deposits by 15% as the liquidity conditions tightened through the year. The yield on loans decreased marginally to 5.48% compared to 5.50% for 2019. i The decline in demand and call deposits resulted in greater reliance on fixed deposits which has resulted in the cost of deposits increasing to 2.31% (2019 2.01%).

- Increased investments in government bonds at higher yields has significantly increased the overall yields on the non-lendable funds.

- Yields on interest bearing assets remained flat at 5.28% and the total cost of funds witnessed steep increase reaching to 2.23% compared to 1.98% for 2019.

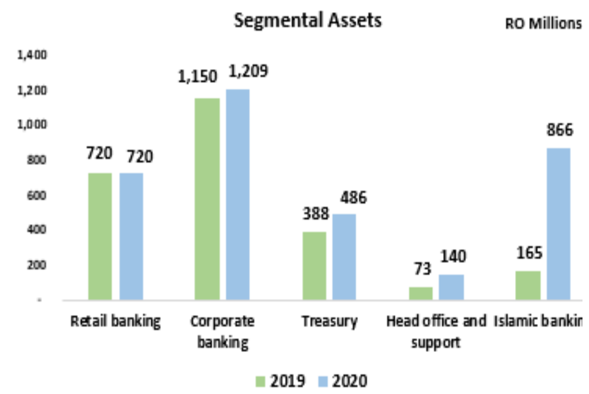
- Commission and fee income increased by RO 10.4 million compared with the previous year mainly due to the consolidation of Islamic financing income of Alizz Islamic Bank in 2020.

- The increase in total operating expense is also mainly due to the consolidation of Alizz Islamic Bank while the operating costs of the Parent increased by 17.3% mainly due to operational loss incident in December 2020 as disclosed in note 34 of the financial statements.

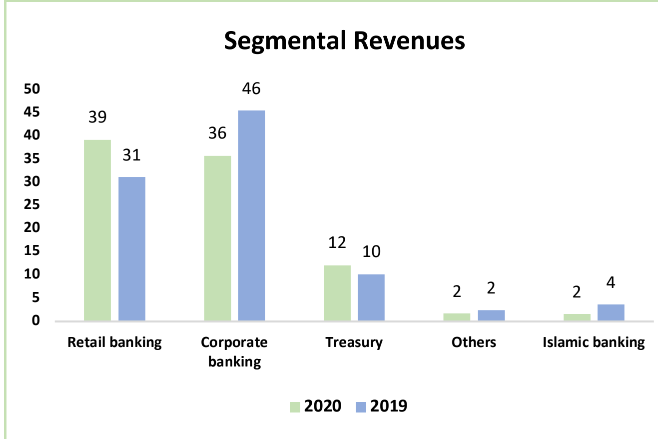
- The net impairment allowance of financial assets increased significantly by RO 12 million to RO 17.7 million (2019 RO 5.5 million) due to the increased Expected Credit Loss on the Bank's loan portfolio as a result of the prevailing economic conditions.

- The Earnings Per Share (EPS) declined to 6 Baiza (2019 20 Baiza) mainly due to issuance of shares by parent entity to the shareholders of Alizz during acquisition.

During 2020, total operating income of the corporate segment saw a growth of RO 4 million (6%), which was in line with the prevailing market conditions, stressed by COVID 19. Income from retail banking reduced by RO 2.4 million mainly because of deferment cases and due to continued fragmentation in the cards and other retail loans. The income from Treasury improved by 21% mainly due to interest on Oman Government Development Bonds and income generated out of the liquid funds through interbank money market placements.



The Bank reports its performance under five segments namely Retail, Corporate, Treasury, Others and Islamic Banking.



Assets

Total assets of RO 3.30 Billion as at 31 December 2020 are RO 0.802 Billion (32%) higher than RO 2.50 Billion as at 31 December 2019. The significant changes were as follows:

Loans and advances

Gross loans at RO 2.74 Billion were RO 0.680 Billion (31%) higher than RO 2.06 Billion as at December 2019. The growth in loans was higher mainly due to acquisition of Alizz.

The YoY growth consisted of RO 0.399 Billion (31%) increase in Corporate loans and an increase RO 0.280 Billion (37%) in Personal loans.

Overall asset quality declined with an increase in the Non-Performing Loans (NPL) ratio to 4.51% from 3.59% as of 31 December 2019, given the higher growth in total NPL to RO 123.6 Million as at 31 December 2020 from RO 73.9 Million as at 31 December 2019.The significant increase in NPL is due to consolidation of non-performing assets of Alizz as at Dec 2020. The non-performing loans included corporate loans of RO 8 million granted under the Government Soft Loan scheme, the principal amount of which were guaranteed and a part of the interest was paid by the Government of Oman.

The total provision coverage at 31 December 2020 is 74% of the non-performing assets compared to 75% at 31 December 2019. The decline in the provision coverage ratio was due to increase in impaired exposures with higher amount of collaterals. The specific provision was 47% of the NPL as the provision requirement was lower after considering the collaterals available for these loans. The provision levels were considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards (IFRS 9).

Investments

Investments in securities of RO 240 million (2019 RO 165 million) comprised mainly of Oman Government Bonds of RO 163 million (2019 RO 147 million) issued by the Central Bank of Oman and corporate bonds of RO 9.3 million (2019 RO 10.8 million). These investments were in accordance with the Bank's strategy to enhance profitability. The investment in equities was RO 4.8 million compared to RO 7.4 million as at 31 December 2018. The reduction in equity investment is consistent with the management's strategy of exiting the equity investment related activities.

Due from Banks

Due from Banks at RO 73 million increased by 43% from RO 51 million as of 31 December 2019, mainly due to acquisition of Alizz and with an objective of increasing the overall returns on assets while maintaining a liquidity buffer. The average yields on due from banks decreased to 2.25% from 2.41% in 2019.

Liabilities

Customer Deposits

The customer deposits constituted 96% (2019 94%) of the total liabilities. Customer deposits stood at RO 2.8 Billion as at 31 December 2020 were 37% higher than the RO 2.0 Billion as at 31 December 2019. The growth comprised of an increase of RO 181 Million (23%) in Demand deposits while the Savings deposits increased by RO 233 million (76%) and Term deposits increased by RO 342 million (37%). This increase is mainly attributed to the acquisition of Alizz Islamic Bank. The Bank has managed its liquidity successfully in spite of the adverse market conditions with 17% increase in Savings accounts balance. The LTD was maintained at around 100% throughout the year and it reached 105% as at 31 Dec-20.

Due to Banks

Due to Banks at RO 14 million as at Dec 2020, decreased by RO 17 million during the year due to decreased money market acceptances as part of the management of liquidity and overall cost of funds.

Shareholders' Funds

Shareholders' funds increased to RO 359 million from RO 296 million in the previous year. The paid-up share capital at RO 166.94 million increased due to issuance of new shares on acquisition of Alizz.

Additional shares for RO 32.3 million were issued at a premium of RO 36.6 million as purchase consideration for the acquisition. CBO regulations require an Impairment Reserve to be created if the provisions requirement in accordance with the CBO guidelines is higher than the provisions as stipulated by IFRS 9. The difference net of tax was transferred to an 'Impairment Reserve' as appropriation from net profit after tax. There was no further amount transferred to the Impairment Reserve in 2020 (2019: 9 million).

Capital Adequacy

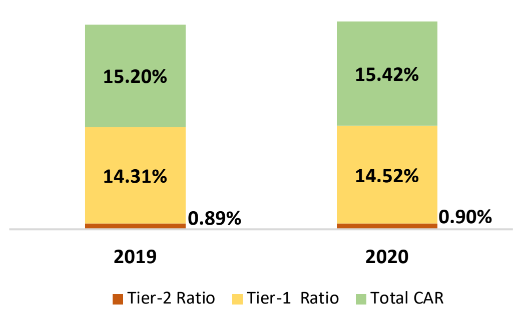
The Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlements (BIS) is at 15.42% (2019: 15.20%). The Tier-I Capital consisting mainly of Common Equity (CET1) is 14.52% (2019: 14.31%)and the Tier-II ratio is maintained at the same percentage of 0.9%.

Due to acquisition of Alizz Islamic Bank, the risk weighted assets grew by 18 per cent from RO 2.4 billion to RO 2.8 billion as at Dec 2020. The consolidated capital base increased to RO 435 M.

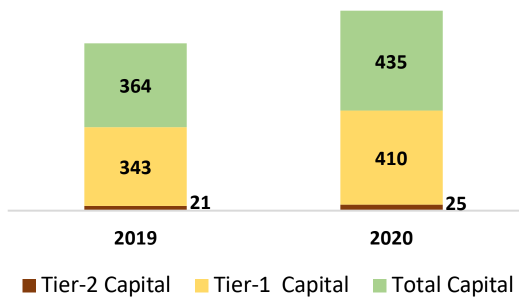
During 2020, the Bank maintained its capital base higher than the regulatory requirements {including Capital Conservative Buffer (CCB)}.

The details of the calculation and the Bank's policy for capital management were provided in the notes to the financial statements and the disclosures in accordance with Pillar 3 of the Basel II guidelines.

Capital Adequacy Ratio



Capital Base RO Million



Sustainability and CSR Report

Sustainability Report

At Oman Arab Bank, we know it is our responsibility to contribute towards building a more sustainable future for all our stakeholders. Under the umbrella of #OABistidama, we strive to make a difference through projects that align with the three main pillars of our sustainability strategy: environmental responsibility, community partnership and financial inclusion. In order to enhance our impact, we have aligned our initiatives with the United Nations Sustainable Development Goals as well as the objectives of Oman Vision 2040. We believe that all our stakeholders have a direct impact on the success of our sustainability strategy. With this in mind, we continue to interact with them, across various channels, to ensure we achieve the results we set out to accomplish.

At Oman Arab Bank, we believe that diversity in the workplace is essential for any successful organization. A diverse workforce not only helps build a better society but it also enables and encourages the exchange of viewpoints and ideas that lead to innovation. This, in turn, has a positive impact on every aspect of the company.

We continue to work towards improving gender diversity at Oman Arab Bank by attracting and developing female talent, to reap the benefits of a diverse workforce. We still have much to do on this front but having a workforce composed of nearly 40% women is a good indication that we are one the right path.

The onset of the COVID-19 pandemic began in the Sultanate during the first quarter of 2020. Our sustainability framework was flexible enough to be altered in order to face these unprecedented challenges and mitigate their effects.

Measures related to the pandemic:

- We launched the "Wiqaya" programme to ensure the safety of our employees. This included allowing them to work remotely, applying preventive quarantine measures, cancelling all physical events, meetings and group gatherings and implementing awareness and guidance campaigns. Additionally, we supervised periodic sanitisations at our branches and ensured the adherence to the recommended precautionary measures.
- We created an account to support the Ministry of Health through donations and provided an integrated digital platform to serve this goal, via the OAB Online App. We also developed a network of automated teller machines (ATMs) to enable everyone, regardless of who they bank with, to donate to the Ministry of Health account with ease.
- We donated OMR 500,000 to the Ministry of Health to support their efforts in combating COVID-19.
- We launched a special credit card for frontline workers with 0% interest, no annual fee and one month's salary on the card.
- We distributed 1,500 Iftar meals to frontline workers during Ramadan.

Environmental Responsibility:

At Oman Arab Bank, we consider ourselves as an environmentally responsible institution. One of our priorities is developing, executing and supporting initiatives aimed at protecting the environment in the long run. Implementing the best environmental practices across all of the Bank's facilities during 2020 was an important learning experience.

- We supported a virtual fundraising event hosted by the Environment Society of Oman, which successfully raised over OMR 100,000.
- We celebrated Earth Hour by turning off all light sources at the Bank's head office and encouraged our followers on social media to do the same.
- We launched our first eco-friendly annual calendar for the year 2021, in cooperation with several talented Omani photographers.
- We measured the volume of our carbon emissions across various activities during 2020, with the aim of reducing it in the upcoming period.
- We donated 62 pieces of furniture to Dar Al Atta'a and Al Rahma Association for Motherhood and Childhood.
- We recycled more than 1,498kg of stationery materials, CDs and old electronic devices. This is in addition to the recycling of paper waste, 41 hard disks, 23kg of credit cards and 13 damaged metal tools.
- We measured the overall electricity consumption in the head office.
- We measured our fuel consumption for vehicles owned or rented by the Bank's head office.
- We assessed the level of water consumption (both drinking and utilities).

Community Partnership:

Community partnerships are an essential part of our vision to play a sustainable role in society. We are proud of our partnership with a number of charities and local NGOs, which had a positive impact on our communities in 2020, especially with regards to the pandemic. In recognition of our efforts we received the Excellence in Social Responsibility Award during the 4th Oman Forum for Partnership and Social Responsibility in 2020.

- We sponsored the development of educational content for 460 students with special needs, during the lockdown period.
- We launched a donation feature on the OAB Online App that allows users to donate to their charity of choice. The platform currently includes Al Noor Association for the Blind, Environment Society of Oman, Takaful Fund affiliated with the Ministry of Social Development, Dar Al Atta'a, Association for Children with Disabilities, the Ministry of Health Fund to combat COVID-19, and the Oman Charitable Organization.
- We launched a campaign on the International Day of Charity where we donated OMR 2,000 to three of our charity partners on behalf of three of our social media followers.
- We donated 1,017kg of food to Dar Al Atta'a for distribution on World Food Day.
- As of May 2020, we have approved the request of customers who wanted a deferral on personal, home, and car loans for up to three months. During this period, we received 4,362 requests for deferment. Deferred loan facilities were available to clients affected by salary cuts, unpaid leave or those that had lower incomes in general.
- On the occasion of the 50th National Day, we exempted the debts of over 150 non-performing borrowers. The list of beneficiaries of this initiative included the elderly, widows and people with disabilities. Debts of those that had passed on and were not covered by insurance companies, were exempted to relieve their families of financial burdens.

Financial Inclusion:

We strive to promote financial inclusion by understanding the needs of various segments of society that currently face difficulty accessing financial services. We then design products and services that meet those needs, improve financial habits and enhance the individuals' knowledge of how to manage their financial affairs. We believe that good financial services are an integral part of everyone's overall well-being and thus an important aspect of building a healthy and prosperous Omani society.

- We have launched awareness campaigns to encourage our customers to save during these uncertain times.
- We organised awareness workshops for various segments of society (youth, women, entrepreneurs and owners of small businesses) on methods of sound financial management.
- We enabled customers to benefit from our services and products via digital platforms without the need to physically visiting our branches.

Conclusion

Oman Arab Bank looks forward to enhancing its sustainable performance in the years to come. This is due to our firm belief in the importance of giving back and our recognition that sustainability is an important catalyst for growth and betterment for all. The Bank is working on issuing its first detailed Sustainability Report for the year 2020, prepared in accordance with internationally recognised GRI Standards.

Financial Highlights

Financial Highlights	2020 RO '000	2019 RO '000	2018 RO '000	2017 RO '000	2016 RO '000
Total Assets	3,300,043	2,497,129	2,328,818	2,138,999	2,065,972
Deposits	2,755,310	1,998,436	1,870,558	1,746,856	1,637,152
Net Loans	2,635,455	2,006,330	1,832,817	1,654,013	1,594,799
Shareholders› Equity	359,024	296,290	284,323	275,561	
Net Profit	14,171	32,556	30,140	26,560	24,526
Net interest income	70,025	72,285	66,523	55,599	50,886
Other operating income	31,020	20,677	21,121	22,152	22,112
Net operating income	**101,045**	**92,962**	**87,644**	**77,751**	**72,998**
Operating expenses	(65,408)	(48,665)	(46,960)	(45,403)	(45,780)
Impairment of investments available-for-sale	(403)	(55)	(9)	(728)	(2,336)
Profit from sale of non-banking asset		-	-	-	2
Provision for loan impairment	(24,472)	(13,795)	(11,142)	(8,276)	(14,384)
Release/recovery from provision for loan impairment	7,187	8,317	6,269	8,132	6,705
Taxation	(3,778)	(6,208)	(5,662)	(4,916)	(2,561)
Profit after tax for the year from discontinued operations	-	-	-	-	9,882
Net Profit after taxation	**14,171**	**32,556**	**30,140**	**26,560**	**24,526**
Dividend	**-**	**14,808**	**14,808**	**14,808**	**7,620**
Total Assets	3,300,043	2,497,129	2,328,818	2,138,999	2,065,972
Gross Loans and advances	2,739,672	2,059,890	1,888,036	1,704,472	1,644,862
Provision for loan impairment	(104,217)	(53,560)	(55,219)	(50,459)	(50,063)
Net Loans and advances	2,635,455	2,006,330	1,832,817	1,654,013	1,594,799
Non-performing loans	123,011	73,933	51,501	50,273	47,938
Customer deposits	2,755,310	1,998,436	1,870,558	1,746,856	1,637,152
Shareholders› funds	359,024	296,290	284,323	275,561	245,479
Share Capital	166,941	134,620	134,620	134,620	127,000
Ratios					
1. Profitability					
Return on shareholders› funds	4.32%	11.21%	10.77%	10.19%	10.67%
Return on Total Assets	0.49%	1.35%	1.35%	1.26%	1.21%
Cost to income	64.73%	52.35%	53.58%	58.40%	62.71%
2. Capital					
Capital Adequacy (BIS standard)	15.42%	15.20%	16.54%	15.69%	15.73%
Shareholders› funds to Total Assets	10.88%	11.87%	12.21%	12.88%	11.88%
3. Asset Quality					
Non-performing loans to Total loans	4.49%	3.59%	2.73%	2.95%	2.91%
Provision coverage	84.72%	72.44%	107.22%	100.37%	104.43%
4. Liquidity					
Net loans to customer deposits	95.65%	100.40%	97.98%	94.69%	97.41%
Net loans to Total Assets	79.86%	80.35%	78.70%	77.33%	77.19%
Liquid Assets to Customer Deposits	17.67%	19.44%	21.83%	22.60%	23.16%
5. Others					
Dividend rate	0.00%	11.00%	11.00%	11.00%	6.00%
Dividends per share in RO	-	0.011	0.011	0.011	0.006
Basic Earnings per share in RO	0.006	0.020	0.020	0.019	0.020

Financial Reports

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Independent Auditors' Report

To the Shareholders of Oman Arab Bank SAOG

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Oman Arab Bank SAOG (the Parent Company) and its subsidiary, (together referred to as the Bank or the Group) set out on pages 13 to 122, which comprise the consolidated and separate statement of financial position as at 31 December 2020, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants *International* Code of Ethics for Professional Accountants *(including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters *(continued)*

Description	How our audit addressed the key audit matter
Expected credit loss allowance against loans and advances As at 31 December 2020, the consolidated gross loans and advances of the Bank were RO 2,740 million against which an expected credit loss ("ECL") allowance of RO 104 million [Parent: RO 2,001 million against which ECL allowance of RO 72 million] was maintained. We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the consolidated and separate financial statements of the Bank. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty about the economic outlook in particular and increased the levels of judgement needed to determine the ECL. The key areas of judgement include: 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Bank has applied additional judgements to identify and estimate the likelihood of borrowers that might have experienced SICR that resulted in deferrals of payments to certain counterparties. The deferrals of payments were not deemed to have triggered SICR by themselves. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages.	▪ We obtained understanding of management's assessment of impairment of loans and advances including the Group's internal rating model, impairment allowance policy and the ECL modelling methodology including the enhancements made in light of the COVID-19 pandemic; ▪ We compared the Group's ECL allowance policy and ECL estimation with the requirements of IFRS 9; ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including IT general and application controls) over: • the IT systems and applications underpinning the ECL model; • the modelling process, including governance over the monitoring of the model including approval of key assumptions and management overlays; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model. ▪ For a sample of customers, we assessed: • the staging as identified by management; and • management's computations for ECL.

Key Audit Matter *(continued)*

Description	How our audit addressed the key audit matter
Expected credit loss allowance against loans and advances *(continued)* 3. The need to apply management overlay using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model. Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020. *Refer to the summary of significant accounting policy note 3.2 for the impairment of financial assets; note 4.1 and 5.1.4 which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 9 which contains the disclosure of impairment against loans and advances; note 5.1 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	▪ We tested the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Group's staging categorisation including customers in vulnerable sectors affected by the COVID-19 pandemic; ▪ We assessed the qualitative factors which were considered by the Bank to recognise any management overlays, in case of data or model limitations. Where such management overlays were applied, we assessed those management overlays and the governance process around them; ▪ We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions in cognisance of the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic; ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020; ▪ Where relevant, we involved our financial risk management specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in management overlays; and ▪ We assessed the adequacy of disclosures in the financial statements.

Key Audit Matters *(continued)*

Description	How our audit addressed the key audit matter
Acquisition of Alizz Islamic Bank SAOC Effective 30 June 2020, the Bank fully acquired Alizz Islamic Bank SAOC and recorded it as an investment in a subsidiary. The Bank accounted for the acquisition on provisional basis in the consolidated financial statements, which will be retrospectively adjusted at the time of completion of the purchase price allocation within one year measurement period from the acquisition date. We have determined this to be a key audit matter based on the materiality, the complexities involved in the acquisition accounting and the significant management's judgment in relation to provisional acquisition accounting. *Refer to the summary of significant accounting policy note 3.1 and note 3.1 A for disclosures relating to the accounting for business combination; note 11 for investment in subsidiary and note 13 for Goodwill in the consolidated and separate financial statements.*	▪ Reviewed the sale and purchase agreement entered by the Bank for the acquisition and other relevant documentation to understand the terms of the acquisition; ▪ Obtained and reviewed the approvals from the regulatory authorities; ▪ Discussed the rationale with the management to account for the acquisition on provisional basis as permitted by IFRS 3 "Business Combinations' and verified the calculations to determine the provisional goodwill amount; ▪ Evaluated the appropriateness of the consolidation adjustments in respect of accounting for these transactions against the requirements of IFRS 3 "Business Combinations"; and ▪ Assessed the adequacy of disclosures in the financial statements.

Key Audit Matters *(continued)*

Description	How our audit addressed the key audit matter
Fraud incident On 22 December 2020, the Bank reported a fraud which involved forgery and embezzlement of approximately RO 6.2 million. Given the significance of the matter, an internal investigation was performed by the internal audit department to determine the impact of fraudulent transactions over the years and overall operating effectiveness of the controls governing the process related to the reconciliation of the relevant general ledger and other account. The Bank has notified the insurance company on this fraud incident and discussion is ongoing to recover the loss under Bankers' Blanket Bond (BBB) insurance. We have determined this to be a key audit matter based on the significance of this matter and it's impact on the financial statements of the Bank. *Refer to the relevant disclosures relating to this fraud incident set out in note 34(b) in the consolidated and separate financial statements.*	▪ Enquired with senior management, those charged with governance, and inspected relevant documentation to obtain an understanding of the incident by reviewing the incident report and the investigation report prepared by the Internal Audit department; ▪ Engaged our forensics specialist team to review the incident and investigation report to assess the appropriateness of the methodology applied by the management to investigate the matter; ▪ Revised our audit strategy in response to the incident and considering its impact on the overall audit approach and discussed and agreed the revised audit approach with Bank's audit committee; ▪ Enquired and discussed the methodology and work performed by the internal task force formed by the Bank to reconcile certain other assets and liabilities general ledger codes. Further, we applied risk based approach to select and test a sample of such reconciliations; ▪ For a samples of balances in other assets and liabilities we inquired about the nature of balances and verified transactions on sample basis; and ▪ Evaluated the accounting treatment and the adequacy of the disclosures in the consolidated and separate financial statements.

Other Matter

The financial statements of the Parent Company as at and for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 4 March 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon:

- Chairman's report;
- Management Discussion and Analysis Report;
- Corporate Governance Report; and
- Basel II Pillar III and Basel III Report of the Group

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as management determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements *(continued)*

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements *(continued)*

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, we report that the financial statements of the Parent Company as at and for the year ended 31 December 2020, comply, in all material respects, with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 2019.

15 March 2021

KPMG
Ravikanth Pelluri

KPMG
KPMG LLC
P O Box 641, PC 112
Shatti Al Qurum
Sultanate of Oman
CR.No: 1358131

Statement of Financial Position
As at 31 December 2020

	Notes	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
ASSETS				
Cash and balances with the Central Bank of Oman	7	220,975	173,652	179,664
Due from banks	8	72,782	70,995	50,802
Loans and advances and financing to customers	9	2,635,455	1,928,866	2,006,330
Investment securities	10	240,218	176,700	165,422
Investments in a subsidiary	11	-	107,144	-
Property and equipment	12	46,605	42,479	39,725
Goodwill	13	6,505	-	-
Other assets	14	77,503	55,287	55,186
Total assets		3,300,043	2,555,123	2,497,129
LIABILITIES				
Due to banks	15	14,421	10,571	31,465
Deposits from customers	16	2,755,310	2,030,762	1,998,436
Other liabilities	17	74,228	57,697	71,698
Subordinated debt	18	20,000	20,000	20,000
Taxation	19	4,507	4,507	6,687
Total liabilities		2,868,466	2,123,537	2,128,286
EQUITY				
Share capital	20	166,941	166,941	134,620
Share premium	21	36,565	36,565	-
Legal reserve	26	46,178	46,178	44,746
General reserve	22	25,560	25,560	25,560
Subordinated debt reserve	23	20,000	20,000	16,000
Special reserve	24	3,837	3,837	3,915
Fair value reserve	10	(1,793)	(2,062)	(1,951)
Impairment reserve	9	9,130	9,130	9,130
Retained earnings		52,606	52,884	64,270
Total equity attributable to the equity holders of the Bank		359,024	359,033	296,290
Perpetual Tier 1 capital bonds	25	72,553	72,553	72,553
Total equity		431,577	431,586	368,843
Total equity and liabilities		3,300,043	2,555,123	2,497,129
Net assets per share (RO)	39	0.215	0.215	0.220
Contingent liabilities and commitments	40(a)	470,678	402,692	720,029

The financial statements were authorised and approved by the Board of Directors on 14 March 2021 and signed by:

Chairman **Director** **Chief Executive Officer**

The accompanying notes 1 to 45 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Interest income	*28*	**117,988**	**117,988**	113,925
Interest expense	*29*	**(47,963)**	**(47,952)**	(41,640)
Net interest income		**70,025**	**70,036**	72,285
Net income from Islamic financing	*30*	**10,103**	**993**	2,747
Net fee and commission income	*31*	**15,496**	**14,275**	11,388
Net (loss) / income from investment securities	*32*	**(134)**	**-**	77
Other operating income	*33*	**5,555**	**5,220**	6,465
Total income		**101,045**	**90,524**	92,962
Operating expenses	*34*	**(65,408)**	**(55,299)**	(48,665)
Net impairment losses on financial assets	*9*	**(17,688)**	**(17,132)**	(5,533)
Profit before tax		**17,949**	**18,093**	38,764
Income tax expense	*19*	**(3,778)**	**(3,778)**	(6,208)
Profit for the year		**14,171**	**14,315**	32,556
Other comprehensive expense:				
Items *that will not be reclassified to profit or loss in the subsequent periods (net of tax):*				
Equity investment at FVOCI – net change in fair value		**(119)**	**(134)**	108
Items that are or may be reclassified subsequently to profit or loss				
Debt investments at FVOCI – net change in fair value		**120**	**-**	-
Debt investments at FVOCI – reclassified to profit or loss		**(134)**	**-**	-
Other comprehensive income / (expense) for the year		**(133)**	**(134)**	108
Total comprehensive income for the year		**14,038**	**14,181**	32,664
Earnings per share:				
Basic and diluted (RO)	*35*	**0.006**	**0.006**	0.020

The accompanying notes 1 to 45 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

Consolidated

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impairment reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2020		**134,620**	**-**	**44,746**	**25,560**	**16,000**	**3,915**	**(1,951)**	**9,130**	**64,270**	**296,290**	**72,553**	**368,843**
Total comprehensive income													
Profit for the year		-	-	-	-	-	-	-	-	**14,171**	**14,171**	-	**14,171**
Other comprehensive income													
Unrealised gain on FVOCI investments		-	-	-	-	-	-	**1**	-	-	**1**	-	**1**
Realised loss on FVOCI investments		-	-	-	-	-	-	**157**	-	**(157)**	-	-	-
Transaction with equity holders of the Bank													
Dividends paid	*27*	-	-	-	-	-	-	-	-	**(14,808)**	**(14,808)**	-	**(14,808)**
Issue of share premium	*21*	-	**36,565**	-	-	-	-	-	-	-	**36,565**	-	**36,565**
Issue of share capital	*20*	**32,321**	-	-	-	-	-	-	-	-	**32,321**	-	**32,321**
Interest distribution of Perpetual Tier 1 capital bonds	*25*	-	-	-	-	-	-	-	-	**(5,516)**	**(5,516)**	-	**(5,516)**
Transfer to legal reserve	*26*	-	-	**1,432**	-	-	-	-	-	**(1,432)**	-	-	-
Transfer to subordinated debt reserve	*23*	-	-	-	-	**4,000**	-	-	-	**(4,000)**	-	-	-
Disposal of Al Yusr		-	-	-	-	-	**(78)**	-	-	**78**	-	-	-
At 31 December 2020		**166,941**	**36,565**	**46,178**	**25,560**	**20,000**	**3,837**	**(1,793)**	**9,130**	**52,606**	**359,024**	**72,553**	**431,577**

The accompanying notes 1 to 45 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

Parent Company

	Notes	**Share capital RO'000**	**Share premium RO'000**	**Legal reserve RO'000**	**General reserve RO'000**	**Subordinated debt reserve RO'000**	**Special reserve RO'000**	**Fair value reserve RO'000**	**Impairment reserve RO'000**	**Retained earnings RO'000**	**Sub total RO'000**	**Perpetual Tier 1 capital bonds RO'000**	**Total RO'000**
Balance at 1 January 2020		**134,620**	**-**	**44,746**	**25,560**	**16,000**	**3,915**	**(1,951)**	**9,130**	**64,270**	**296,290**	**72,553**	**368,843**
Total comprehensive income													
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,315**	**14,315**	**-**	**14,315**
Other comprehensive income													
Unrealised gain on FVOCI investments		**-**	**-**	**-**	**-**	**-**	**-**	**(134)**	**-**	**-**	**(134)**	**-**	**(134)**
Realised loss on FVOCI investments		**-**	**-**	**-**	**-**	**-**	**-**	**23**	**-**	**(23)**	**-**	**-**	**-**
Transaction with equity holders of the Bank													
Dividends paid	*27*	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**(14,808)**	**(14,808)**	**-**	**(14,808)**
Issue of share premium	*21*	**-**	**36,565**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,565**	**-**	**36,565**
Issue of share capital	*20*	**32,321**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,321**	**-**	**32,321**
Interest distribution of Perpetual Tier 1 capital bonds	*25*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,516)**	**(5,516)**	**-**	**(5,516)**
Transfer to legal reserve		**-**	**-**	**1,432**	**-**	**-**	**-**	**-**	**-**	**(1,432)**	**-**	**-**	**-**
Transfer to subordinated debt reserve	*23*	**-**	**-**	**-**	**-**	**4,000**	**-**	**-**	**-**	**(4,000)**	**-**	**-**	**-**
Transfer of Al Yusr		**-**		**-**	**-**	**-**	**(78)**	**-**	**-**	**78**	**-**	**-**	**-**
At 31 December 2020		**166,941**	**36,565**	**46,178**	**25,560**	**20,000**	**3,837**	**(2,062)**	**9,130**	**52,884**	**359,033**	**72,553**	**431,586**

The accompanying notes 1 to 45 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impairmen t reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2019		134,620	41,490	25,560	12,000	3,915	(2,059)	-	68,797	284,323	72,553	356,876
Total comprehensive income												
Profit for the year		-	-	-	-	-	-	-	32,556	32,556	-	32,556
Other comprehensive income												
Dividends paid		-	-	-	-	-	-	-	(14,808)	(14,808)	-	(14,808)
Unrealised gain on FVOCI		-	-	-	-	-	108	-	-	108	-	108
Realised loss on FVOCI		-	-	-	-	-	-	-	(355)	(355)	-	(355)
Interest distribution of Perpetual Tier 1 capital bonds	*25*	-	-	-	-	-	-	-	(5,534)	(5,534)	-	(5,534)
Transfer to legal reserve		-	3,256	-	-	-	-	-	(3,256)	-	-	-
Impairment reserve		-	-	-	-	-	-	9,130	(9,130)	-	-	-
Transfer to subordinated debt reserve	*23*	-	-	-	4,000	-	-	-	(4,000)	-	-	-
As at 31 December 2019		134,620	44,746	25,560	16,000	3,915	(1,951)	9,130	64,270	296,290	72,553	368,843

The accompanying notes 1 to 45 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Operating activities			
Profit before tax	**17,949**	**18,093**	38,764
Adjustments:			
Depreciation	**6,880**	**6,136**	5,812
Impairment for credit losses	**17,688**	**17,132**	5,533
Income from held to maturity securities	**(10,280)**	**(8,967)**	(6,861)
Dividend Income	**(71)**	**(71)**	(189)
Loss on sale of property and equipment	**39**	**39**	31
Interest on subordinated debt	**1,103**	**1,103**	1,100
Change in fair value of financial assets at fair value through profit or loss	**205**	**71**	112
Operating profit before working capital changes	**33,513**	**33,536**	44,302
Loans and advances and financing to customers	**(90,842)**	**(79,587)**	(179,373)
Due from banks	**7,000**	**7,000**	-
Other assets	**(5,328)**	**(1,823)**	(6,680)
Deposits from customers	**184,512**	**162,857**	127,878
Other liabilities	**(11,650)**	**(11,305)**	3,999
Cash from / (used in) operations	**117,205**	**110,678**	(9,874)
Tax paid	**(5,923)**	**(5,923)**	(6,244)
Net cash from / (used in) operating activities	**111,282**	**104,755**	(16,118)
Investing activities			
Purchase of investments	**(49,823)**	**(23,468)**	(56,850)
Disposals and redemptions	**16,819**	**8,388**	22,207
Income from investments at amortized cost	**10,280**	**8,967**	6,861
Purchase of property and equipment	**(9,528)**	**(9,074)**	(6,759)
Proceeds from sale of property and equipment	**2**	**2**	47
Dividend Income	**71**	**71**	189
Investment in a subsidiary	**-**	**(19,500)**	-
Net cash used in investing activities	**(32,179)**	**(34,614)**	(34,305)
Financing activities			
Interest on subordinated debt	**(1,103)**	**(1,103)**	(1,100)
Interest on Perpetual Tier 1 capital bonds	**(5,516)**	**(5,516)**	(5,534)
Dividends paid	**(14,808)**	**(14,808)**	(14,808)
Net cash used in financing activities	**(21,427)**	**(21,427)**	(21,442)
Net increase / (decrease) in cash and cash equivalents	**57,676**	**48,714**	(71,865)
Cash and cash equivalents at the beginning of the year	**178,501**	**178,501**	250,366
Cash and cash equivalents from acquisition of Alizz and disposal of Al Yusr	**29,134**	**(6,639)**	-
Cash and cash equivalents at the end of the year (note 37)	**265,311**	**220,576**	178,501

The accompanying notes 1 to 45 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020

1. Legal status and principal activities

Oman Arab Bank SAOG (the Parent Company) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. On 6 July 2020, Oman Arab Bank SAOC was listed in listed on Muscat Securities Market (MSM) and consequently the name was changed from Oman Arab Bank SAOC to Oman Arab Bank SAOG. The Parent Company is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the bank is North Al Ghoubra, P.O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, Sultanate of Oman. The Parent Company was a subsidiary of Oman International Development and Investment Company SAOG up to 29 June 2020 and from 30 June 2020, Arab Bank PLC, an entity based in Jordan, holds 49% shareholding in the Parent Company.

On 6 July 2020, the Parent Company transferred its Islamic Window (Al Yusr) to AIB. Hence, the Parent Company is now having AIB as a separate Islamic Banking subsidiary. Al Yusr Islamic Window has been transferred based on net assets value as of 30 June 2020 as common control transaction.

This is first set of consolidated financial statements being prepared by the Bank after acquisition of the AIB and disposal of Al Yusr to the AIB. Consolidated financial statements comprises of the results of the Bank for the year and AIB (subsidiary) from date of acquisition (30 June 2020). Parent Company financial statements comprises of the results of the Parent Company for the year and Al Yusr until 30 June 2020. Comparative financial information relating of 2019 remains same for the Parent Company and the Group, accordingly disclosed in one column.

The Parent Company used to prepare a separate set of financial statements for Al Yusr in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO. However, for current year, no such financial statements have been presented due to the disposal of Al Yusr to the Subsidiary. The Subsidiary prepares separate set of financial statements in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board (the "SSB") and other applicable requirements of the CBO. The Subsidiary's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these consolidated financial statements.

The Parent Company and the Subsidiary together are referred as 'Group' or 'Bank'.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019, the disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO).

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

2. Basis of preparation (continued)

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI) which have been measured at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani ("RO"), which is the Bank's functional (currency of primary economic environment in which the Bank operates) , rounded to the nearest thousand unless otherwise stated.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

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

A number of new or amended standards became applicable for the current reporting period. The Bank did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards:

- Definition of Material – Amendments to IAS 1 and IAS 8;
- Definition of a Business – Amendments to IFRS 3;
- Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39; and
- Amendments to references to conceptual framework in IFRS standards.

2.6 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted any of the forthcoming new or amended standards in preparing these financial statements and these standards are not expected to impact the Group's financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- IFRS 17 Insurance Contracts;
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1; and
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these financial statements.

3.1 Basis of consolidation

Business Combination

The Group accounts for business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

The consolidated financial statements include the financial statements of the Parent and its subsidiary. IFRS10 introduces a control model that focuses on whether the Bank has power over the investee, exposure or rights to variable returns from its investment with the investee and the ability to use its power to affect those returns. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of their acquisition or up to the date of their disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

Non-controlling interests (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Common control business combinations

A business combination is a 'common control combination' if the combining entities are ultimately controlled by the same party (or parties) both before and after the combination and common control is not transitory.

Business combinations involving entities under common control are outside the scope of IFRS 3 'Business Combinations' Standard. The Bank has adopted an accounting policy to account for common control transactions on predecessor value method i.e. net assets value on date of transfer. A predecessor value method involves accounting for the assets and liabilities of the transferred business using existing carrying values.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

A. Acquisition of Alizz Islamic Bank SAOG and transfer of Al Yusr Islamic window

On 30 June 2020, the Bank acquired 100 percent of the shares and voting interests in Alizz Islamic Bank (AIB). As a result, the Bank obtained full control over AIB, which made it a wholly owned subsidiary. AIB was previously listed on the Muscat Securities Market (MSM) and upon acquisition by the Bank, the shares of AIB were delisted. Subsequently these shares were exchanged for the shares in the Bank. The exchange of shares was based on the agreed ratio of 81:19 between the Bank and shareholders of AIB. The share swap ratio was determined based on net assets value of the Bank and AIB as at 31 March 2020, which was approved by the shareholders of both banks and regulators. Subsequently, the Bank was listed on MSM at price of RO 0.213 per share i.e. net assets value per share of the Bank as of 31 March 2020. Accordingly, the consideration paid for acquisition of AIB recorded as share capital and share premium is based on the share price of RO 0.213. The total consideration paid for the acquisition is RO 68,886 thousands.

Consideration transferred

	Units	Unit Price	**RO' 000**
Shares Issued	323,210,000	0.100	**32,321**
Share Premium	323,210,000	0.113	**36,565**
			68,886

Acquisition-related costs

The Bank has incurred RO 877 thousands as merger related costs which has been expensed.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition which is as at 30 June 2020. These numbers are based on unaudited financial statements of the AIB as at 30 June 2020.

Assets	**RO'000**
Cash and balances with the Central Bank of Oman	34,223
Due from banks	5,114
Loans & advances and financing to customers	555,971
Investment securities	42,399
Property and equipment	3,533
Other assets	17,397
Total Assets	**658,637**
Due to banks	10,203
Deposits from customers	572,362
Other liabilities	13,691
Liabilities	**596,256**
Net assets	**62,381**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

A. Acquisition of Alizz Islamic Bank SAOG and transfer of Al Yusr Islamic window (continued)

The acquisiton accounting has been made on provisional basis based on net assets of the AIB on date of acquisition as the purchase price allocation exercise to determine the fair value of assets acquired and liabilities assumed is ongoing. The accounting for the acquisition will be revised on completion of purchase price allocation within a period of 12 months from the date of acquisition as allowed under IFRS 3 “Business Combinations”.

The difference between consideration transferred and net assets acquired of RO 6,505 thousand has been recorded as provisional Goodwill which is subject to changes on completion of PPA exercise.

B. Net asset of Al Yusr Islamic window transferred

During the year, the Bank transferred net asset of Al Yusr Islamic window to Alizz Islamic Bank SAOC for RO 18,758 thousands pursuant to the Sale and Purchase Agreement (SPA) dated 6 July 2020. Accordingly, profit or loss of Al Yusr Islamic Window results upto 30 June 2020 are reflected in these financial statements. Disposal of Al Yusr has been accounted for as common control transaction.

The breakup of the assets and liabilities transferred are as below:

Assets	**RO’000**
Cash and balances with the Central Bank of Oman	21,202
Due from banks	437
Loans & advances and financing to customers	139,919
Investment securities	3,597
Property and equipment	143
Other assets	1,722
Total Assets	**167,020**
Due to banks	15,000
Deposits from customers	130,531
Other liabilities	2,731
Total Liabilities	**148,262**
Net assets	**18,758**

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities

Recognition and initial measurement

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

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income (“FVOCI”) or 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:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (“SPPI”).

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

***Classification* (continued)**

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

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

Classification **(continued)**

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

Derecognition
Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:
• Change in currency of the loan
• Introduction of an equity feature
• Change in counterparty
• If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

De-recognition other than for substantial modification

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

The Group has transferred the financial asset if, and only if, either:
- The Group has transferred its contractual rights to receive cash flows from the financial asset

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

De-recognition other than for substantial modification **(continued)**

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

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

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

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

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

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

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

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- unutilized loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

Impairment **(continued)**
Overview of the ECL principles
The Bank records the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1
When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). The Bank considers following types of debts as 'low credit risk (LCR)':

- All Oman Government sovereign exposures
- All local currency exposures to or guaranteed by the Government of Oman or CBO

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk.

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

Stage 3
Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

Stage 1
Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses.

Stage 2
Credit risk has increased significantly since initial recognition – recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3
There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

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

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost. The Bank has also applied a LGD of 0% on loans and advances and financing to customers aggregating to RO 89,490 thousand (Consolidated) RO 64,490 thousand (Parent) [2019: RO 57,472 thousand] as of 31 December 2020 which are guaranteed by the Government of Oman or collateralized by way of bank deposits / cash margin.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

3.3 Cash and cash equivalents

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

3.4 Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

3.5 Property and equipment

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

	Years
Building	25
Leasehold improvements	Shorter of lease period or 5-10
Equipment, furniture and fixtures	5-10
Computer equipment and Software	5
Motor vehicles	5

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Impairment of non-financial assets

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

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

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances before de-recognition and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of profit or loss.

3.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3.9 Borrowings

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

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

3.10 Investment in subsidiary

In Parent Company financial statements, investment in subsidiary is stated at cost, less any impairment in the value of the investments. Dividend income from subsidiary is accounted in the year in which entitlement is established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Perpetual bonds

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

3.12 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of profit or loss as incurred.

The obligation is calculated using the projected unit credit method and is discounted to its present value.

3.13 Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

3.14 Deposits from customers

Deposits from banks and customers and subordinated liabilities are the Bank's sources of funding. All money market and customer deposits are carried at amortised cost using EIR.

3.15 Taxation

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

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Taxation (continued)

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

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

3.16 Fair value measurement principles

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Fair value measurement principles (continued)

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

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

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

3.17 Interest income and expense

Interest income and expense is recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid / received that are an integral part of effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

Interest income and expense presented in the statement of comprehensive income include:

i. Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
ii. Interest on debt investment securities on an effective interest rate basis.

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees. Fees and commission income is measured based on the consideration specified in the contract with the customers. The Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

3.19 Acceptances

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

3.20 Derivative financial instruments

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

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(iii) hedges of a net investment in a foreign operation (net investment hedge).

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

3.21 Financial guarantees contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Dividends on shares

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

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

3.23 Repurchase and resale agreements

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

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.24 Foreign currencies

Transactions in foreign currencies are translated into the respective functional currency using the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.25 Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Directors' remuneration

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

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

3.27 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). The Bank's main business segments are corporate, retail banking and Islamic financing. Segmental information pertaining to Islamic Banking subsidiary is also disclosed in note 44.

3.28 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 by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.29 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within note 12 and are subject to impairment in line with the Bank's policy as described in note 3.6 Impairment of non-financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.29 Leases (continued)

Lease liabilities
At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Bank as a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

As of 31 December 2020 and 2019, the Bank is not a lessor in any of the lease arrangements.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

4. Critical accounting estimates and judgments in applying accounting policies

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

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

4.1 Impairment losses on financial assets

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

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

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

4. Critical accounting estimates and judgments in applying accounting policies (continued)

4.1 Impairment losses on financial assets (continued)

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

4.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the Bank and the relevant tax authority.

4.3 Going concern

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

4.4 Impact of COVID-19

Certain judgments were involved in determining the ECL impact of COVID-19 deferrals. For more information see Note 5.1.4.

4. Critical accounting estimates and judgments in applying accounting policies (continued)

4.5 Fair value of financial instruments

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

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

5. Financial risk management

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

A bank risk committee, comprising the bank's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products, including approval of LGDs and eligible collateral for ECL calculations. The bank risk committee also reviews all risk policies and limits. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks.

5.1 Credit risk

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

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

5. Financial risk management (continued)

5.1 Credit risk (continued)

The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

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

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

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

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

5. Financial risk management (continued)

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

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

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

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost. The Bank has also applied a LGD of 0% on loans and advances and financing to customers aggregating to RO 89,490 thousand (Consolidated), [Parent (2020: RO 64,490 thousand; (2019: RO 57,472 thousand] as of 31 December 2020 which are guaranteed by the Government of Oman or collateralized by way of bank deposits / cash margin.

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

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

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31 December 2020, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 50%:25%:25% (2019: 66.66%:16.67%:16.67%) respectively.

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

5. Financial risk management (continued)

The internal ratings map as follows:

Internal rating grade	***Internal classification***
Rating grade 1	High
Rating grade 2	High
Rating grade 3	High
Rating grade 4	High
Rating grade 5	High
Rating grade 6	Standard
Rating grade 7	Standard
Rating grade 8	Standard
Rating grade 9	Standard
Rating grade 10	Satisfactory
SM	Satisfactory
Classified	
SS	Sub-standard
DD	Doubtful
LS	Loss

5. Financial risk management (continued)

5.1 Credit risk (continued)

Credit risk profile

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

Consolidated	**Due from banks RO 000**	**Investment securities RO 000**	**Loans and advances RO 000**	**Credit related contingent items RO 000**
Stage 1 (12-month ECL)				
High	69,690	10,515	536,191	208,596
Standard	3,189	3,217	1,249,134	277,915
Satisfactory	-	-	235,175	164,742
Gross Carrying amount	**72,879**	**13,732**	**2,020,500**	**651,253**
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	28,133	54,984
Standard	-	-	208,418	85,374
Satisfactory	-	-	375,929	163,793
Gross Carrying amount	**-**	**-**	**612,480**	**304,151**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	26,153	5
Doubtful	-	-	13,863	73
Loss	-	401	82,995	155
Gross Carrying amount	**-**	**401**	**123,011**	**233**

Provisions for impairment are as below:

Consolidated Stage	**Due from banks RO 000**	**Investment securities RO 000**	**Loans and advances RO 000**	**Credit related contingent items RO 000**
Stage 1	95	67	9,820	205
Stage 2	-	-	29,193	179
Stage 3	-	403	52,529	504
Total	**95**	**470**	**91,542**	**888**

5. Financial risk management (continued)

5.1 Credit risk (continued)

Credit risk profile (continued)

Parent Company	**Due from banks**	**Investment securities**	**Loans and advances**	**Credit related contingent items**
	RO 000	**RO 000**	**RO 000**	**RO 000**
Stage 1 (12-month ECL)				
High	67,902	9,386	353,194	191,346
Standard	3,189	-	848,023	278,259
Satisfactory	-	-	222,401	81,219
Gross Carrying amount	**71,091**	**9,386**	**1,423,618**	**550,824**
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	2,865	54,965
Standard	-	-	169,006	84,459
Satisfactory	-	-	324,738	161,329
Gross Carrying amount	**-**	**-**	**496,609**	**300,753**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	24,565	-
Doubtful	-	-	4,500	-
Loss	-	-	68,086	-
Gross Carrying amount	**-**	**-**	**97,151**	**-**

Provisions for impairment are as below:

Parent Company	**Due from banks**	**Investment securities**	**Loans and advances**	**Credit related contingent items**
	RO 000	**RO 000**	**RO 000**	**RO 000**
Stage				
Stage 1	94	67	7,168	139
Stage 2	-	-	19,523	126
Stage 3	-	-	35,176	-
Total	**94**	**67**	**61,867**	**265**

*No ECL has been calculated on Government Development Bonds and Government Sukuk amounting to RO 221,739 thousand [(Parent) 2020: RO 162,588 thousand; 2019: RO 147,166 thousand] .

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

5. Financial risk management (continued)

5.1 Credit risk (continued)

Credit risk profile (continued)

The credit risk profile for 2019, based on internal credit ratings, was as follows:

	Due from banks	Investment securities	Loans and advances	Credit related contingent items
	RO 000	RO 000	RO 000	RO 000
Stage 1 (12-month ECL)				
High	35,486	10,835	460,618	359,337
Standard	15,670	-	950,079	390,831
Satisfactory	-	-	141,426	235,645
Equity investments	-	7,421	-	-
Gross Carrying amount	51,156	18,256	1,552,123	985,813
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	34,356	42,850
Standard	-	-	89,315	143,254
Satisfactory	-	-	310,164	87,520
Gross Carrying amount	-	-	433,835	273,624
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	6,051	-
Doubtful	-	-	10,721	-
Loss	-	-	57,161	-
Gross Carrying amount	-	-	73,933	-

Provisions for impairment are as below:

Stage	Due from banks	Investment securities	Loans and advances	Credit related contingent items
	RO 000	RO 000	RO 000	RO 000
Stage 1	169	67	7,001	675
Stage 2	-	-	14,973	134
Stage 3	-	-	24,489	-
Total	169	67	46,463	809

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

5. Financial risk management (continued)

5.1 Credit risk (continued)

Credit risk profile (continued)

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

2020

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

2019

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

The Bank’s probability of Default for the secured retail exposures is based only on days past due as per the below table:

Bucket	Probability of Default (%)
0 days past dues	0.178
1-30 days past dues	4.771
31-60 days past dues	25.926
60-89 days past dues	53.846

Economic variable assumptions

The following tables set out the key drivers of expected loss and the assumptions used for the Bank’s base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2020.

5. Financial risk management (continued)

5.1 Credit risk (continued)

2020

Key drivers	ECL scenario and assigned weightage	2020	2021	2022	2023	2024
GDP growth (% change)	Base (50%)	1.80%	0.60%	-5.30%	2.95%	3.41%
	Upside (25%)	6.81%	5.63%	3.91%	4.00%	4.10%
	Downside (25%)	2.06%	2.06%	2.06%	2.09%	2.83%
Oil revenue (%GDP)	Base (50%)	19.56%	12.22%	13.67%	27.84%	29.65%
	Upside (25%)	43.15%	38.49%	31.63%	32.02%	32.41%
	Downside (25%)	24.30%	24.30%	24.30%	24.43%	27.36%

2019

Key drivers	ECL scenario and assigned weightage	2019	2020	2021	2022	2023
GDP growth (% change)	Base (66.6%)	0.19%	2.08%	4.17%	2.95%	3.41%
	Upside (16.67%)	6.81%	5.63%	3.91%	4.00%	4.21%
	Downside (16.67%)	2.06%	2.06%	2.06%	2.09%	2.83%
Oil revenue (%GDP)	Base (66.6%)	17.53%	15.73%	14.68%	27.84%	29.65%
	Upside (16.67%)	43.15%	38.49%	31.63%	32.02%	32.41%
	Downside (16.67%)	24.30%	24.30%	24.30%	24.43%	27.36%

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

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

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 Risk mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 Risk mitigation policies (continued)

(c) Credit-related commitments

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

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

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year-end is set out in Note 40(a).

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

Consolidated	**Performing loans (neither past due nor impaired) RO'000**	**Loans past due and not impaired RO'000**	**Non performing loans RO'000**	**R**
Loans and advances with collateral available	**850,533**	**133,756**	**47,495**	**1,03**
Loans and advances with guarantees available	**246,869**	**-**	**7,537**	**25**
Balance as at 31 December 2020	**1,097,402**	**133,756**	**55,032**	**1,28**
Percentage of exposure with collateral and guarantees	**47%**	**51%**	**45%**	

Parent Company	**Performing loans (neither past due nor impaired) RO'000**	**Loans past due and not impaired RO'000**	**Non performing loans RO'000**	**R**
Loans and advances with collateral available	**436,180**	**56,724**	**26,225**	**5**
Loans and advances with guarantees available	**221,869**	**-**	**7,537**	**2**
Balance as at 31 December 2020	**658,049**	**56,724**	**33,762**	**7**
Percentage of exposure with collateral and guarantees	**39%**	**28%**	**35%**	
Balance as at 31 December 2019	746,930	254,106	31,017	1,0

5.Financial risk management (continued)

5.1 Credit risk (continued)

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

Items on the statement of financial position	Consolidated 2020 RO' 000	Parent Company 2020 RO' 000	2019 RO' 000
Cash and balances with Central Bank of Oman	**220,975**	**173,652**	179,664
Due from banks	**72,879**	**71,091**	51,156
Loans and advances			
Corporate loans	**1,696,813**	**1,278,581**	1,297,563
Personal loans	**1,042,859**	**722,479**	762,327
Other assets	**75,044**	**55,287**	55,186
Government Development Bonds / Government Sukuk	**221,739**	**162,589**	147,166
Corporate bonds	**13,731**	**9,386**	10,836
	3,344,040	**2,473,065**	2,511,318
Off-Balance sheet items			
Letters of credit	**77,600**	**73,635**	162,993
Guarantees	**251,150**	**221,837**	405,769
Financial guarantees	**141,928**	**107,220**	151,267
	470,678	**402,692**	720,029

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.3 Loans and advances and due from banks

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

Consolidated

31 December 2020	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	1,811,680	72,879	1,884,559
Special Mention loans	543,672	-	543,672
Past due but not impaired	261,309	-	261,309
Impaired	123,011	-	123,011
Gross loans and advances	2,739,672	72,879	2,812,551
Less: expected credit loss	(104,217)	(97)	(104,314)
Net loans and advances and due from banks	2,635,455	72,782	2,708,237

Parent Company

31 December 2020	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	1,214,653	71,091	1,285,744
Special Mention loans	484,220	-	484,220
Past due but not impaired	205,036	-	205,036
Impaired	97,151	-	97,151
Gross loans and advances	2,001,060	71,091	2,072,151
Less: expected credit loss	(72,194)	(96)	(72,290)
Net loans and advances and due from banks	1,928,866	70,995	1,999,861

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.3 Loans and advances and due from banks (continued)

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

31 December 2019	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	1,359,980	51,156	1,411,136
Special Mention loans	371,871	-	371,871
Past due but not impaired	254,106	-	254,106
Impaired	73,933	-	73,933
Gross loans and advances	2,059,890	51,156	2,111,046
Less: expected credit loss	(53,560)	(354)	(53,914)
Net loans and advances and due from banks	2,006,330	50,802	2,057,132

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

31 December 2020	**Consolidated**		
	Retail loans RO' 000	**Corporate loans RO' 000**	**Total RO' 000**
Standard loans (1-10)	**1,010,790**	**1,062,153**	**2,072,943**
Special mention loans	**8,455**	**535,263**	**543,718**
Substandard loans	**2,209**	**23,945**	**26,154**
Doubtful loans	**5,202**	**8,661**	**13,863**
Loss	**16,203**	**66,791**	**82,994**
	1,042,859	**1,696,813**	**2,739,672**

31 December 2020	**Parent Company**		
	Retail loans RO' 000	**Corporate loans RO' 000**	**Total RO' 000**
Standard loans (1-10)	**702,680**	**717,009**	**1,419,689**
Special mention loans	**1,886**	**482,334**	**484,219**
Substandard loans	**979**	**23,586**	**24,565**
Doubtful loans	**4,225**	**275**	**4,500**
Loss	**12,710**	**55,376**	**68,086**
	722,480	**1,278,580**	**2,001,060**

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.3 Loans and advances and due from banks (continued)

31 December 2019	Retail loans RO' 000	Corporate loans RO' 000	Total RO' 000
Standard loans (1 – 10)	746,408	867,678	1,614,086
Special mention loans	2,481	369,390	371,871
Substandard loans	1,622	2,676	4,298
Doubtful loans	3,545	8,929	12,474
Loss	8,271	48,890	57,161
	762,327	1,297,563	2,059,890

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

	Consolidated 2020 RO' 000	**Parent Company 2020 RO' 000**	2019 RO' 000
Past due up to 30 days	**80,551**	**67,535**	87,105
Past due 30-60 days	**112,468**	**89,577**	82,553
Past due 60-90 days	**68,741**	**47,924**	84,448
Total	**261,760**	**205,036**	254,106

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 CBO COVID related disclosures

5.1.4.1 Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the banks have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

5.1.4.2 Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc. (refer CBO circular no. BSD/CB/2020/001for details). These measures have been extended until 31 March 2021.

5.1.4.3 Impact of COVID-19 on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, will not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment will be needed to measure ECLs at this time. When it is not possible to reflect such information in the models, post-model overlays or adjustments should be considered. This is also broadly consistent with guidelines issued by other regulators including those issued by the CBO.

Additional IFRS 9 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of loan repayment by a borrower may not on its own trigger the counting of 30 DPD or more backstop used to determine SICR or the 90 days past due backstop used to determine default. However, banks shall continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly fairly recognize such risk.

- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless banks and FLC's might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 CBO COVID related disclosures (continued)

5.1.4.3 Impact of COVID-19 on the Bank (continued)

- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.

- Banks must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices & significant CBO policy measures being undertaken.

- Nevertheless, any changes made to ECL estimate the impact of Covid-19 distress will be subject to very high levels of uncertainty as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied by the banks and FLCs in their IFRS 9/ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to Covid-19 effect on market prices of collateral and guarantees. However, Banks and FLCs are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

The IFRS 9 Working Group of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

A considerable portion of Bank's retail portfolio comprises of Omani nationals employed in government sector. This retail segment is expected to largely remain shielded from job cuts and salary reductions. Retail lending to private sector employees is expected to witness impact of economic meltdown in the short to medium term due to the pandemic and hence could lead to potential credit issues. The Bank is fully committed to help its customers through this turbulent period as directed by the CBO. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

5.1.4.4 Impact on SICR:
The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 CBO COVID related disclosures (continued)

5.1.4.5 Impact on ECL (continued)

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2020 are set out as follows:

As on the reporting date the collective provision held by the Bank through management overlays amounts to RO 7,164 thousand [Parent: RO 4,125 thousands] which are specifically allocated to certain stressed parties. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 CBO COVID related disclosures (continued)

5.1.4.6 PMAs and management overlays:

Given the ever evolving nature of the current health and economic crisis, the banks management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2020 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

In determining above, the management has considered following assumptions at Group level:

- Oil revenue as per percentage of GDP 19.6% (2019: 17.5%)
- Real GDP growth 1.8% (2019:0.2%)

Following are the scenario weightage considered by the Bank at Group level:

- Scenario weightings of 50%, 25%, 25% for Base, Downside and Upside scenarios (31 December 2019: 66.6%, 16.7%, 16.7%);

Sensitivity of ECL to future economic conditions

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) excluding management overlays under IFRS 9 as at December 31, 2020 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	Consolidated		**Parent Company**	
	At 31 December 2020		**At 31 December 2020**	
Sensitivity of impairment estimates	**Impact on ECL RO 000's**	**Impact on ECL RO 000's**	**Impact on ECL RO 000's**	**Impact on ECL RO 000's**
ECL on non-impaired loans under IFRS9	**31,311**	**-**	**21,908**	**-**
Simulations				
Upside case - 100% weighted	**18,087**	**13,224**	**13,571**	**8,337**
Base case - 100% weighted	**41,948**	**(10,637)**	**29,356**	**(7,448)**
Downside scenario - 100% weighted	**76,633**	**(45,322)**	**59,295**	**(37,387)**

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 CBO COVID related disclosures (continued)

5.1.4.7 Accounting for modification loss and government grant:

In case of Corporate and retail customers, the Company has added the simple interest accrued during the deferral period (DP) to the principal outstanding and either extend the original maturity period of the loan or increase the instalments at the end of the DP. The Company has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not result in derecognition of financial assets. Further, the impact of day one modification loss was not considered material for the period.

5.1.4.8 Impact on the Capital Adequacy

Besides, the bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the bank's regulatory capital is 10 bps [Parent: 12 bps]

Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

5.1.5 Loans and advances renegotiated

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

The total restructured loans at 31 December 2020 amounted to RO 179,681 thousand (consolidated), [2020: RO 140,844 thousand (Parent); (2019: RO 122,405 thousand].

5.1.6 Debt securities

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

5.2 Market risk

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

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.1 Price risk

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

Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's equity and total comprehensive income at 31 December 2020 may decrease by 3.6% (2019 – 2.5%) due to decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The subsidiary has no investment in equity securities publically traded on MSM.

5.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The table in Note 41 summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EAR at 31 December 2020 is 2.6% (2019 – 2.8%).

Interest rate benchmark reforms

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other Interbank Offer Rates ("IBORs") are expected to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates were cessation may be delayed until 30 June 2023.

IBOR reform exposes the Group to various risks. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk

Interest rate benchmark reforms (continued)

- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable;
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available; and
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

The Bank has established a project to manage the transition for any of its contracts that could be affected, which is being led by senior management. The Bank is currently assessing the impact of these reforms and next steps to ensure a smooth transition to the new benchmark.

5.2.3 Currency risk

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

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

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

Net foreign currency exposure

	Consolidated	**Parent Company**	
	2020	**2020**	2019
	RO'000	**RO'000**	RO'000
USD	**5,204**	**295**	3,195
AED	**760**	**649**	1,253
GBP	**53**	**50**	9
Others	**1,641**	**1,537**	2,552
	7,658	**2,531**	7,009

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

5.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced.

5. Financial risk management (continued)

5.3 Liquidity risk (continued)

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy. The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table in Note 41 represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

The lending ratio is a regulatory ratio which considers total loans and advances to customer deposits and capital. This ratio is monitored on daily basis and reported on monthly basis as per CBO guidelines. The Bank has internally set a conservative lending ratio benchmark which is lower than CBO lending ratio.

The maximum permissible lending ratio as at 31 December 2020 was 92.5% (2019: 87.5%). In the COVID-19 stimulus package announce by CBO the maximum limit of this ratio was extended to 92.5% from 87.5%.

The Bank has reported following lending ratio for the year:

	Parent Company	
	2020	2019
Year end	**80.1%**	85.5%
Maximum for the year	**89.9%**	87.6%
Minimum for the year	**76.7%**	82.7%
Average for the year	**84.6%**	84.9%

5.4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes. Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk governance is set through policies, processes, procedures and oversight of executive committee. The Bank cannot eliminate all operational risks, however, the operational risk framework is set to identify, assess, monitor and control the risks through the three lines of defences. It periodically conducts various assessment's to review risk exposures and implements controls to mitigate the operational risk profile, in accordance with the overall risk appetite. To ensure effective controls and building risk culture, operational risk awareness is scheduled annually across the Bank. Insurance is another tool used as an operational risk mitigant. Insurance coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, cyber security, etc aim to protect the bank from high severity risks by reducing the financial impact. During the year, the Bank has incurred operational loss as disclosed in note 34.

Management risk committee

The Management Risk committee is the main committee for Bank's major risk including operational risk. The committee is composed of main business and control functions. The objectives of the committee is to review and oversee the Bank's risk profile and to put in place actions required to maintain the risk profile within the approved appetite.

5. Financial risk management (continued)

5.4 Operational risk (continued)

Business Continuity Management (BCM)

Business Continuity Plan addresses the inherent risks, which may lead unexpected business interruptions. The goal of BCM is to provide the ability to effectively respond to threats to protect the business interests and continue to operate following a significant unplanned event or major operational disruption. As a part of Crisis Communication and Business Continuity Management processes, OAB has taken initiatives and proactive measures in meeting the contingency requirements always and especially during COVID-19. The Bank has taken proactive steps considering the pandemic scenario in its BCP. The bank has ensured the resilience to run the business critical processes during such contingency situation with the effective process in place and the management support. The Bank has a Disaster Recovery Site and remote working set up to meet any unforeseen disaster and maintain operational continuation in such event. The Bank has conducted various BCP requirement like Business Impact assessments, evacuation drills, tests (announced and unannounced) call tree, and spread awareness.

Information Security

Information Security is an essential component of risk management. The Bank seeks to avoid risk and uncertainty for its critical information assets and systems affecting operations and reputation of the bank. Information security governance set up is in place through security policies & procedures. The Bank has invested to implement robust security infrastructure and is conducting periodic vulnerability assessments to ensure the security of the systems.

5.5 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2020. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.5.1 Current account balances due to and from banks

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

5.5.2 Loans and advances

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

5.5.3 Investments at fair value through profit or loss

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

5. Financial risk management (continued)

5.5.4 Customers' deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

5.5.5 Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

5.5 Financial instruments by category

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

Consolidated

Assets as per statement of financial position	Fair value through profit or loss (FVTPL)	Amortized Costs (AC)	Fair value through other comprehensive income (FVOCI)	Total
	RO'000	RO'000	RO'000	RO'000
31 December 2020				
Bank balances and cash	-	220,975	-	220,975
Due from banks	-	72,879	-	72,879
Loans and advances & Financing activities	-	2,739,672	-	2,739,672
Investment securities	403	193,241	47,044	240,688
Other assets	-	77,503	-	77,503
	403	3,304,270	47,044	3,351,717

Parent Company

Assets as per statement of financial position	Fair value through profit or loss (FVTPL) RO'000	Amortized Costs (AC) RO'000	Fair value through other comprehensive income (FVOCI) RO'000	Total RO'000
31 December 2020				
Bank balances and cash	-	173,652	-	173,652
Due from banks	-	71,091	-	71,091
Loans and advances & Financing activities	-	2,001,060	-	2,001,060
Investment securities	403	171,975	4,389	176,767
Other assets	-	55,287	-	55,287
	403	2,473,065	4,389	2,477,857

5. Financial risk management (continued)

5.5 Financial instruments by category (continued)

Financial assets as per statement of financial position	Fair value through profit or loss (FVTPL) RO'000	Amortized Costs (AC) RO'000	Fair value through other comprehensive income (FVOCI) RO'000	Loans and receivables RO'000	Total RO'000
31 December 2019					
Bank balances and cash	-	-	-	179,664	179,664
Due from banks	-	-	-	50,802	50,802
Loans and advances	-		-	2,006,330	2,006,330
Investment securities	3,919	158,002	3,501	-	165,422
Other assets	-	-	-	55,186	55,186
	3,919	158,002	3,501	2,291,982	2,457,404

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

Financial liabilities as per statement of financial position

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Due to banks	**14,421**	**10,571**	31,465
Deposits from customers	**2,755,310**	**2,030,762**	1,998,436
Other liabilities	**74,228**	**57,697**	71,698
Subordinated bonds	**20,000**	**20,000**	20,000
	2,863,959	**2,119,030**	2,121,599

6. Capital management

The Bank's objectives of capital management are:

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

The principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

CBO requires the registered banks in the Sultanate of Oman to maintain minimum capital adequacy of 11 per cent based on letter BSD/2018/1 dated 20 March 2018. Additionally, the CAR threshold requires a capital conservation buffer (CCB) of 2.5 per cent annually in addition to a 1 per cent of prompt corrective action. However the circular BSD/CB/2020/001 dated 18 March 2020, relaxed the CCB requirements to 1.25 per cent and accordingly the minimum capital adequacy requirement has been reduced respectively.

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Capital			
Common Equity Tier 1 (CET 1)	**336,995**	**241,265**	270,283
Additional Tier 1	**72,553**	**72,553**	72,553
Total Tier 1	**409,548**	**313,818**	342,836
Tier 2	**25,234**	**18,078**	21,206
Total capital base	**434,782**	**331,896**	364,042
Risk weighted assets			
Credit risk	**2,600,029**	**1,997,015**	2,215,780
Market risk	**18,200**	**13,075**	18,288
Operational risk	**201,908**	**165,275**	161,463
Total risk weighted assets	**2,820,137**	**2,175,365**	2,395,531
Capital adequacy ratio %	**15.42%**	**15.26%**	15.20%
CET 1 ratio	**11.95%**	**11.09%**	11.28%
Tier 1 Capial ratio	**14.52%**	**14.43%**	14.31%

The Tier 1 capital consists of paid-up capital, reserves, subordinated debt reserves and perpetual bonds. The Tier 2 capital consists of the ECL on stage 1 and stage 2 exposures in line with the circular BSD/CB/FLC/2019/17.

7. Cash and balances with the Central Bank of Oman

	Consolidated 2020 RO' 000	Parent Company 2020 RO' 000	2019 RO' 000
Cash in hand	**39,892**	**31,165**	42,511
Balances with the Central Bank of Oman:			
- Clearing account	**132,125**	**99,637**	94,303
- Placements	**47,933**	**42,350**	42,350
- Capital deposits	**1,025**	**500**	500
	220,975	**173,652**	179,664

(i) The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1.5% (2019:1.5%) for the Parent company. CBO does not pay any interest to the Islamic Banks in Oman, therefore, no such interest was earned by the Subsidiary during the year.

(ii) During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves was RO 69 million (Consolidated), [Parent (2020:RO 58 million); (2019: RO :62 million).

(iii) Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, there are no expected credit losses and hence no provision has been recognised.

8. Due from banks

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Placements	**33,000**	**33,000**	39,130
Current accounts	**39,879**	**38,091**	12,026
Due from banks and other money market placements	**72,879**	**71,091**	51,156
Less: allowance for credit losses	**(97)**	**(96)**	(354)
	72,782	**70,995**	50,802

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

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Balance at the beginning of the year	**354**	**354**	538
Acquisition related adjustments	**1**	**-**	-
Released during the year	**(258)**	**(258)**	(184)
Balance at the end of the year	**97**	**96**	354

At 31 December 2020, 61% (2019: 50%) of the Bank's placements were with one (2019: eight) bank(s) rated in the range of Aa3 to Baa3 (2019: Aa3 to Baa3) and 39% (2019: 50%) of the placements were with Oman Housing Bank SAOC, which is owned by Government.

8. Due from banks (continued)

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

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

9. Loans and advances and financing to customers

	Consolidated 2020 RO' 000	Parent Company 2020 RO' 000	2019 RO' 000
Corporate loans			
Term loans	**1,085,744**	**1,085,744**	995,377
Overdrafts	**139,265**	**139,265**	135,634
Bills discounted	**53,572**	**53,572**	66,030
Islamic finance	**418,232**	**-**	100,522
	1,696,813	**1,278,581**	1,297,563
Personal loans			
Consumer loans	**402,871**	**402,871**	418,766
Mortgage loans	**314,161**	**314,161**	299,008
Overdrafts	**1,830**	**1,830**	1,710
Credit cards	**3,617**	**3,617**	4,016
Islamic finance	**320,380**	**-**	38,827
	1,042,859	**722,479**	762,327
Gross loans and advances	**2,739,672**	**2,001,060**	2,059,890
Less: allowance for loan impairment losses and contractual interest not recognised	**(104,217)**	**(72,194)**	(53,560)
Net loans and advances	**2,635,455**	**1,928,866**	2,006,330

9. Loans and advances and financing to customers (continued)

Allowance for the credit losses and contractual interest not recognised

The movements in the allowance for the credit losses and contractual interest not recognised on loans and advances were as follows:

Consolidated	**Allowance for credit losses**	**Contractual interest not recognised**	**Total**
	RO' 000	**RO' 000**	**RO' 000**
Balance at 1 January 2020	**47,153**	**6,407**	**53,560**
Provided during the year	**24,750**	**6,254**	**31,004**
Amounts written off during the year	**(751)**	**(238)**	**(989)**
Acuqisition of Alizz	**26,996**	**833**	**27,829**
Amounts released / recovered during the year	**(5,654)**	**(1,533)**	**(7,187)**
Balance at end of year	**92,494**	**11,723**	**104,217**

Parent Company	**Allowance for loan impairment**	**Contractual interest not recognised**	**Total**
	RO' 000	**RO' 000**	**RO' 000**
Balance at 1 January 2020	**47,153**	**6,407**	**53,560**
Provided during the year	**24,577**	**5,498**	**30,075**
Amounts written off during the year	**(751)**	**(238)**	**(989)**
Transfer of Al Yusr	**(3,128)**	**(137)**	**(3,265)**
Amounts released/recovered during the year	**(5,654)**	**(1,533)**	**(7,187)**
Balance at end of year	**62,197**	**9,997**	**72,194**

	Allowance for credit losses	Contractual interest not recognised	Total
	RO' 000	RO' 000	RO' 000
Balance at 1 January 2019	47,596	7,623	55,219
Provided during the year	13,979	5,208	19,187
Amounts written off during the year	(8,902)	(3,627)	(12,529)
Amounts released / recovered during the year	(5,520)	(2,797)	(8,317)
Balance at end of year	47,153	6,407	53,560

Total allowance for the credit losses on the performing loans as at 31 December 2020 is RO 39,013 thousand (Consolidated); [Parent: RO 26,691 thousand (2019: RO 23,018 thousand)]. The Central Bank of Oman regulation requires that the allowance for credit losses should be in accordance with IFRS 9 and if the provision requirement as per the Central Bank of Oman guidelines is higher than IFRS 9, the difference net of tax needs to be transferred to the "Impairment Reserve" as an appropriation from net profit after tax. In 2020, there is no reverse has been transferred to impairment reserve RO 9,130 thousand (Consolidated); [Parent: RO 9,130 thousand (2019: RO 9,130 thousand)] as difference between IFRS 9 ECL and CBO provision is RO 9,130 thousands at the Parent Company.

Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 123,644 thousand (Consolidated); [Parent: RO 97,151 thousand (2019: RO 73,934 thousand)].

9. Loans and advances and financing to customers (continued)

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

2020

Consolidated

(Amounts in RO'000)

Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per IFRS 9**	**Interest recognised in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
		RO 000	**RO 000**	**RO 000**	**RO 000**	**RO 000**	**RO 000**	**RO 000**	**RO 000**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	1,808,268	23,369	8,858	14,511	1,784,900	1,799,410	-	-
Standard	Stage 2	264,674	2,686	7,748	(5,062)	261,990	256,926	-	-
	Stage 3	-	-	-	-	-	-	-	-
		2,072,942	**26,055**	**16,606**	**9,449**	**2,046,890**	**2,056,336**	**-**	**-**
	Stage 1	195,921	1,922	995	927	193,999	194,926	-	-
Special Mention	Stage 2	347,797	11,417	21,461	(10,044)	336,381	326,336	-	-
	Stage 3	-	-	-	-	-	-	-	-
		543,718	**13,339**	**22,456**	**(9,117)**	**530,380**	**521,262**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	26,154	6,271	12,155	(5,884)	19,334	13,999	-	550
		26,154	**6,271**	**12,155**	**(5,884)**	**19,334**	**13,999**	**-**	**550**
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	13,863	5,846	7,513	(1,667)	7,238	6,350	-	778
		13,863	**5,846**	**7,513**	**(1,667)**	**7,238**	**6,350**	**-**	**778**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	82,994	44,188	33,198	10,990	28,410	49,796	-	10,395
		82,994	**44,188**	**33,198**	**10,990**	**28,410**	**49,796**	**-**	**10,395**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	813,349	-	334	(334)	813,349	813,015	-	-
	Stage 2	304,159	-	163	(163)	304,159	303,996	-	-
	Stage 3	633	229	570	(341)	404	63	-	-
		1,118,141	**229**	**1,067**	**(838)**	**1,117,912**	**1,117,074**	**-**	**-**
Total	**Stage 1**	**2,817,538**	**25,291**	**10,187**	**15,104**	**2,792,248**	**2,807,351**	**-**	**-**
	Stage 2	**916,630**	**14,103**	**29,372**	**(15,269)**	**902,530**	**887,258**	**-**	**-**
	Stage 3	**123,644**	**56,534**	**53,436**	**3,098**	**55,386**	**70,208**	**-**	**11,723**
	Total	**3,857,812**	**95,928**	**92,995**	**2,933**	**3,750,164**	**3,764,817**	**-**	**11,723**

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2020

9. Loans and advances and financing to customers (continued)

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

2020

Parent Company

(Amounts in RO'000)

Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per IFRS 9**	**Interest recognised in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	1,215,660	16,870	6,205	10,665	1,198,790	1,209,455	-	-
	Stage 2	204,029	2,044	3,053	(1,008)	201,985	200,976	-	-
Standard	Stage 3				-	-	-	-	-
Subtotal		**1,419,689**	**18,914**	**9,258**	**9,657**	**1,400,774**	**1,410,431**	**-**	**-**
	Stage 1	191,647	1,877	964	913	189,771	190,684	-	-
	Stage 2	292,572	10,796	16,470	(5,674)	281,777	276,102	-	-
Special Mention	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**484,219**	**12,673**	**17,434**	**(4,761)**	**471,546**	**466,786**	**-**	**-**
	Stage 1				-	-	-		
	Stage 2				-	-	-		
Substandard	Stage 3	24,565	5,978	11,556	(5,579)	18,072	13,008		516
Subtotal		24,565	5,978	11,556	(5,579)	18,071	13,008	**-**	**516**
	Stage 1	-	-	-	-	-	-		
	Stage 2	-	-	-	-	-	-		
Doubtful	Stage 3	4,500	1,763	1,207	556	2,544	3,292		192
Subtotal		**4,500**	**1,763**	**1,207**	**556**	**2,545**	**3,292**	**-**	**192**
	Stage 1				-	-	-		
	Stage 2				-	-	-		
Loss	Stage 3	68,086	32,095	22,413	9,682	26,701	45,673		9,289
Subtotal		**68,086**	**32,095**	**22,413**	**9,682**	**26,702**	**45,673**	**-**	**9,289**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	647,603	-	300	(300)	647,603	647,302		
	Stage 2	300,761	-	125	(125)	300,761	300,636		
	Stage 3	-	-	-	-	-	-		
Subtotal		**948,364**	**-**	**425**	**(425)**	**948,364**	**947,938**	**-**	**-**
	Stage 1	**2,054,910**	**18,746**	**7,469**	**11,277**	**2,036,164**	**2,047,441**	**-**	**-**
	Stage 2	**797,362**	**12,841**	**19,648**	**(6,807)**	**784,521**	**777,714**	**-**	**-**
	Stage 3	**97,151**	**39,836**	**35,176**	**4,660**	**47,318**	**61,973**	**-**	**9,997**
Total	**Total**	**2,949,423**	**71,423**	**62,293**	**9,130**	**2,868,003**	**2,887,128**	**-**	**9,997**

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2020

9. Loans and advances and financing to customers (continued)

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

2019

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	1,450,403	2,162	6,784	(4,622)	1,448,241	1,443,619	-	-
Standard	Stage 2	161,912	2,433	2,351	82	159,479	159,561	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,612,315	4,595	9,135	(4,540)	1,607,720	1,603,180	-	-
								-	
	Stage 1	101,719	18,011	217	17,794	83,708	101,502	-	-
Special Mention	Stage 2	271,923	2,534	12,622	(10,088)	269,008	259,301	-	381
	Stage 3	-	-	-	-	-	-	-	-
		373,642	20,545	12,839	7,706	352,716	360,803	-	381
								-	
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,051	1,429	2,592	(1,163)	4,526	3,459	-	96
		6,051	1,429	2,592	(1,163)	4,526	3,459	-	96
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	10,721	4,127	3,979	148	6,273	6,742	-	321
		10,721	4,127	3,979	148	6,273	6,742	-	321
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	57,161	25,942	17,918	8,024	25,609	39,243	-	5,610
		57,161	25,942	17,918	8,024	25,609	39,243	-	5,610
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,047,803	-	911	(911)	1,047,803	1,046,892	-	-
	Stage 2	273,624	-	134	(134)	273,624	273,490	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,321,427	-	1,045	(1,045)	1,321,427	1,320,382	-	-
	Stage 1	2,599,925	20,173	7,912	12,261	2,579,752	2,592,013	-	-
Total	Stage 2	707,459	4,967	15,107	(10,140)	702,111	692,352	-	381
	Stage 3	73,933	31,498	24,489	7,009	36,408	49,444	-	6,027
	Total	3,381,317	56,638	47,508	9,130	3,318,271	3,333,809	-	6,407

9. Loans and advances and financing to customers (continued)

Stage Classification at origination and Staging Guidelines

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

The exposures subsequent to the classification at origination shall be classified into three categories Stage 1, Stage 2 and Stage 3 for the purposes of provisioning for credit risk losses.

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

Upon significant deterioration in the credit quality since inception of an exposure, the asset is classified as Stage 2. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1.

When a default results the asset is classified as Stage 3. The classification of an exposure in Stage 2 and 3 are based on changes in the credit quality or default.

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

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

Islamic financing

Below is the product wise breakup of loans and advances included under Islamic finance:

2020	**Retail**	**Corporate**	**Total**
	RO'000	**RO'000**	**RO'000**
Musharaka	**100,267**	**142,806**	**243,073**
Murabaha	**61,386**	**42,446**	**103,832**
Ijarah Muntahia Bittamleek	**156,724**	**104,800**	**261,524**
Wakala	**-**	**128,180**	**128,180**
Others	**2,003**	**-**	**2,003**
At 31 December 2020	**320,380**	**418,232**	**738,612**

2019	Retail	Corporate	Total
	RO'000	RO'000	RO'000
Musharaka	29,494	36,359	65,853
Murabaha	5,045	13,931	18,976
Ijarah Muntahia Bittamleek	4,288	38,077	42,365
Wakala	-	12,155	12,155
At 31 December 2019	38,827	100,522	139,349

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

9. Loans and advances and financing to customers (continued)

Restructured loans

2020

Consolidated — **RO 000**

Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Carrying Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Carrying Amount as per CBO norms**	**Net Carrying Amount as per IFRS 9**	**Interest recognised in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	-	-	-	-	-	-	-	-
Classified as performing	Stage 2	**149,534**	**9,526**	**14,450**	**(4,924)**	**140,009**	**135,084**	-	-
	Stage 3	-	-	-	-	-	-	-	-
		149,534	**9,526**	**14,450**	**(4,924)**	**140,008**	**135,084**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	**30,147**	**9,977**	**15,128**	**(5,153)**	**19,332**	**15,018**	-	839
		30,147	**9,977**	**15,128**	**(5,153)**	**19,332**	**15,018**	**-**	839
	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**149,534**	**9,526**	**14,450**	**(4,924)**	**140,008**	**135,084**	**-**	**-**
	Stage 3	**30,147**	**9,977**	**15,128**	**(5,153)**	**19,331**	**15,018**	-	839
Total	**Total**	**179,681**	**19,503**	**29,578**	**(10,077)**	**159,339**	**150,102**	**-**	**839**

Parent company — **RO 000**

Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Carrying Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Carrying Amount as per CBO norms***	**Net Carrying Amount as per IFRS 9**	**Interest recognised in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	-	-	-	-	-	-	-	-
Classified as performing	Stage 2	**115,638**	**9,488**	**11,005**	**(1,517)**	**106,150**	**104,633**	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**115,638**	**9,488**	**11,005**	**(1,517)**	**106,150**	**104,633**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	**25,206**	**7,672**	**11,085**	**(3,414)**	**17,072**	**14,121**	-	462
Sub total		**25,206**	**7,672**	**11,085**	**(3,414)**	**17,072**	**14,121**	**-**	**462**
	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**115,638**	**9,488**	**11,005**	**(1,517)**	**106,150**	**104,633**	**-**	**-**
	Stage 3	**25,206**	**7,672**	**11,085**	**(3,414)**	**17,072**	**14,121**	**-**	**462**
Total	**Total**	**140,844**	**17,160**	**22,090**	**(4,931)**	**123,222**	**118,754**	**-**	**462**

9. Loans and advances and financing to customers (continued)

Restructured loans (continued)

2019
Parent Company

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
					(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)		
(1)	(2)	(3)	(4)	(5)				(9)	(10)
	Stage 1	-	-	-	-	-	-	-	-
Classified as performing	Stage 2	117,054	1,415	5,180	(3,765)	115,639	111,874	-	-
	Stage 3	-	-	-	-	-	-	-	-
		117,054	1,415	5,180	(3,765)	115,639	111,874	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,351	2,557	2,055	502	2,395	3,296	-	399
		5,351	2,557	2,055	502	2,395	3,296	-	399
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	117,054	1,415	5,180	(3,765)	115,639	111,874	-	-
	Stage 3	5,351	2,557	2,055	502	2,395	3,296	-	399
Total	Total	122,405	3,972	7,235	(3,263)	118,034	115,170	-	399

9. Loans and advances and financing to customers (continued)

Concentration of loans and advances

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

	Consolidated		**Parent Company**			
	2020		**2020**		2019	
	RO' 000		**RO' 000**		RO' 000	
Personal loans	**1,042,859**	**38%**	**722,479**	**36%**	762,327	37%
Construction	**327,603**	**12%**	**226,840**	**11%**	274,167	13%
Manufacturing	**259,635**	**9%**	**180,739**	**9%**	148,563	7%
Mining and quarrying	**178,230**	**7%**	**143,014**	**7%**	175,091	9%
Services	**274,493**	**10%**	**146,509**	**7%**	147,177	7%
Import trade	**100,632**	**4%**	**80,822**	**4%**	66,707	3%
Transportation	**115,112**	**4%**	**105,821**	**5%**	104,643	5%
Electricity , water & gas	**56,966**	**2%**	**49,433**	**3%**	50,633	2%
Wholesale and retail trade	**124,781**	**5%**	**93,980**	**5%**	77,573	4%
Financial institutions	**81,036**	**3%**	**81,036**	**4%**	74,183	4%
Agriculture and allied activities	**13,843**	**1%**	**7,792**	**1%**	8,449	1%
Export trade	**514**	**0%**	**514**	**0%**	93	0%
Government	**-**	**0%**	**-**	**0%**	1,538	0%
Lending to non-residents	**3,387**	**0%**	**1,500**	**0%**	1,081	0%
Others	**160,581**	**6%**	**160,581**	**8%**	167,665	8%
	2,739,672	**100%**	**2,001,060**	**100%**	2,059,890	100%

9. Loans and advances and financing to customers (continued)

2020

Consolidated	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Exposure subject to ECL				
- Loans and Advances to Customers and interest receivables	2,020,500	612,480	123,011	2,755,991
- Investment Securities (Debt)	72,905	-	401	73,306
- Loan Commitments and Financial Guarantees	419,084	304,150	232	723,466
- Due from Banks, Central Banks and Other Financial Assets	305,049	-	-	305,049
	2,817,538	**916,630**	**123,644**	**3,857,812**
Opening balance as at 1 January 2020				
- Loans and Advances to Customers	7,001	14,973	24,489	**46,463**
- Investment Securities (Debt)	67	-	-	**67**
- Loan Commitments and Financial Guarantees	490	134	-	**624**
- Due from Banks, Central Banks and Other Financial Assets	354	-	-	**354**
	7,912	**15,107**	**24,489**	**47,508**
Acquisition related adjustments				
- Loans and Advances to Customers	1,687	11,665	13,023	**26,375**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	64	53	504	**621**
- Due from Banks, Central Banks and Other Financial Assets	1	-	-	**1**
	1,752	**11,718**	**13,527**	**26,997**
Net transfer between stages				
- Loans and Advances to Customers	4	(6,671)	6,667	**-**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	(26)	26	-	**-**
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	**-**
	(22)	**(6,645)**	**6,667**	**-**
Charge for the year (net)				
- Loans and Advances to Customers	1,128	9,226	9,101	**19,455**
- Investment Securities (Debt)	-	-	403	**403**
- Loan Commitments and Financial Guarantees	(325)	(34)	-	**(358)**
- Due from Banks, Central Banks and Other Financial Assets	(258)	-	-	**(258)**
	545	**9,192**	**9,504**	**19,241**
Write-off	**-**	**-**	**(751)**	**(751)**
Closing balance as at 31 December 2020				
- Loans and Advances to Customers	9,820	29,193	52,529	**91,542**
- Investment Securities (Debt)	67	-	403	**470**
- Loan Commitments and Financial Guarantees	203	179	504	**886**
- Due from Banks, Central Banks and Other Financial Assets	97	-	-	**97**
	10,187	**29,372**	**53,436**	**92,995**

Impairment charge and provisions held

Consolidated	As per CBO Norms	As per IFRS 9	RO 000 Difference
Impairment loss charged to profit and loss account	17,688	17,688	-
Provisions required as per CBO norms/held as per IFRS 9	95,928	92,995	2,933
Gross NPL ratio	4.51%	4.51%	
Net NPL ratio	2.44%	2.56%	

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

9. Loans and advances and financing to customers (continued)

2020

Parent Company	Stage 1 RO' 000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Exposure subject to ECL				
- Loans and Advances to Customers and interest receivables	1,423,618	496,609	97,151	**2,017,378**
- Investment Securities (Debt) excluding Government Development Bonds and Sukuk	9,377	-	-	**9,377**
- Loan Commitments and Financial Guarantees	354,727	300,753	-	**655,480**
- Due from Banks, Central Banks and Other Financial Assets	267,188	**-**	**-**	**267,188**
	2,054,910	**797,362**	**97,151**	**2,949,423**
Opening Balance- as at 1 January 2020				
- Loans and Advances to Customers	7,001	14,973	24,489	**46,463**
- Investment Securities (Debt)	67	-	-	**67**
- Loan Commitments and Financial Guarantees	490	134	-	**624**
- Due from Banks, Central Banks and Other Financial Assets	354	-	-	**354**
	7,912	**15,107**	**24,489**	**47,508**
Transfer of Al Yusr				
- Loans and Advances to Customers	(795)	(542)	(1,788)	**(3,125)**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	(2)	(1)	-	**(3)**
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	**-**
	(797)	**(543)**	**(1,788)**	**(3,128)**
Net transfer between stages				
- Loans and Advances to Customers	772	(2,814)	2,042	-
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	(26)	26	-	**-**
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	**-**
	746	**(2,788)**	**2,042**	**-**
Charge for the Period (net)				
- Loans and Advances to Customers	190	7,906	11,184	**19,280**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	(324)	(34)	-	**(358)**
- Due from Banks, Central Banks and Other Financial Assets	(258)	-	-	**(258)**
	(392)	**7,872**	**11,184**	**18,664**
Write Off			**(751)**	**(751)**
Closing Balance - as at 31 December 2020				
- Loans and Advances to Customers	**7,168**	**19,523**	**35,176**	**61,867**
- Investment Securities (Debt)	**67**	**-**	**-**	**67**
- Loan Commitments and Financial Guarantees	**138**	**125**	**-**	**263**
- Due from Banks, Central Banks and Other Financial Assets	**96**	**-**	**-**	**96**
	7,469	**19,648**	**35,176**	**62,293**

Impairment charge and provisions held

Parent Company	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	17,132	17,132	-
Provisions required as per CBO norms/held as per IFRS 9	71,423	62,293	9,130
Gross NPL ratio	4.85%	4.85%	
Net NPL ratio	2.86%	3.07%	

9.Loans and advances and financing to customers (continued)

2019	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Exposure subject to ECL				
- Loans and Advances to Customers	1,551,512	433,835	73,933	2,059,280
- Investment Securities (Debt)	10,836	-	-	10,836
- Loan Commitments and Financial Guarantees	985,812	273,624	-	1,259,436
- Due from Banks, Central Banks and Other Financial Assets	51,156	-	-	51,156
	2,599,316	707,459	73,933	3,380,708
Opening balance as at 1 January 2019				
- Loans and Advances to Customers	7,177	24,060	15,847	47,084
- Investment Securities (Debt)	12	-	-	12
- Loan Commitments and Financial Guarantees	144	352	-	496
- Due from Banks, Central Banks and Other Financial Assets	538	-	-	538
	7,871	24,412	15,847	48,130
Net transfer between stages				
- Loans and Advances to Customers	1,583	(1,998)	415	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments and Financial Guarantees	73	(77)	4	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	1,656	(2,075)	419	-
Charge for the year (net)				
- Loans and Advances to Customers	(1,759)	(7,089)	8,227	(621)
- Investment Securities (Debt)	55	-	-	55
- Loan Commitments and Financial Guarantees	273	(141)	(4)	128
- Due from Banks, Central Banks and Other Financial Assets	(184)	-	-	(184)
	(1,615)	(7,230)	8,223	(622)
Closing balance as at 31 December 2019				
- Loans and Advances to Customers	7,001	14,973	24,489	46,463
- Investment Securities (Debt)	67	-	-	67
- Loan Commitments and Financial Guarantees	490	134	-	624
- Due from Banks, Central Banks and Other Financial Assets	354	-	-	354
	7,912	15,107	24,489	47,508

Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	RO'000 Difference
Impairment loss charged to profit and loss account	(5,478)	(5,478)	-
Provisions required as per CBO norms/held as per IFRS 9	56,638	47,508	(9,130)
Gross NPL ratio	3.59%	3.59%	
Net NPL ratio	2.11%	2.40%	

10. Investment securities

	Consolidated Carrying value 2020 RO'000	**Parent Company Carrying value 2020 RO'000**	Carrying value 2019 RO'000
Fair value through profit and loss(FVTPL)			
Quoted investments- Oman			
Banking and investment sector	**250**	**250**	3,754
	250	**250**	3,754
Quoted investments- Foreign			
Banking and investment sector	**153**	**153**	165
	153	**153**	165
Total Fair value through profit and loss	**403**	**403**	3,919
Equity investments measured at FVOCI			
Quoted investments- Oman			
Banking and investment sector	**1,195**	**1,195**	216
Manufacturing sector	**842**	**842**	784
Service sector	**1,776**	**1,776**	802
	3,813	**3,813**	1,802
Quoted investments- Foreign			
Banking and investment sector	**174**	**174**	807
Service sector	**65**	**65**	130
	239	**239**	937
Unquoted investments			
Banking and investment sector	**168**	**168**	593
Service sector	**595**	**169**	169
	763	**337**	762
Debt investments measured at FVOCI			
Quoted investments- Oman			
Government Sukuk	**37,883**	**-**	**-**
Banking and Investment sector	**4,346**	**-**	**-**
	42,229	**-**	**-**
Total FVOCI	**47,044**	**4,389**	3,501
Amortized Cost			
Quoted investments- Oman			
Government Development Bonds (GDBs)	**162,589**	**162,589**	143,994
Government Sukuk	**21,266**	**-**	3,172
Banking and investment sector	**-**	**-**	1,491
Service sector	**9,386**	**9,386**	9,345
Total Amortized Cost	**193,241**	**171,975**	158,002
Total gross financial investments	**240,688**	**176,767**	165,489
Less: allowance for impairment losses	**(470)**	**(67)**	(67)
	240,218	**176,700**	165,422

10. Investment securities (continued)

Consolidated	FVOCI Equity Investments	FVOCI Debt Investments	Amortised Cost	FVTPL	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
At 1 January 2020	**3,501**	**-**	**158,069**	**3,919**	**165,489**
Acquistion related adjustments	**-**	**24,304**	**18,095**	**-**	**42,399**
Additions	**2,491**	**26,354**	**20,978**	**-**	**49,823**
Disposals and redemption	**(1,058)**	**(8,416)**	**(3,900)**	**(3,445)**	**(16,819)**
Loss from change in fair value	**(119)**	**(14)**	**-**	**(71)**	**(204)**
Less: allowance for impairment	**-**	**(403)**	**(67)**	**-**	**(470)**
At 31 December 2020	**4,815**	**41,825**	**193,175**	**403**	**240,218**

Parent Company	FVOCI Equity Investments	FVOCI Debt Investments	Amortised Cost	FVTPL	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
At 1 January 2020	**3,501**	**-**	**158,069**	**3,919**	**165,489**
Transfer of Al Yusr	**(425)**	**-**	**(3,172)**	**-**	**(3,597)**
Additions	**2,490**	**-**	**20,978**	**-**	**23,468**
Disposals and redemption	**(1,043)**	**-**	**(3,900)**	**(3,445)**	**(8,388)**
Loss from change in fair value	**(134)**	**-**	**-**	**(71)**	**(205)**
Less: allowance for impairment	**-**	**-**	**(67)**	**-**	**(67)**
At 31 December 2020	**4,389**	**-**	**171,908**	**403**	**176,700**

2019

Parent Company	FVOCI Equity Investments	FVOCI Debt Investments	Amortised Cost	FVTPL	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
At 1 January 2019	4,883	-	122,329	4,031	131,243
Additions	216	-	56,640	-	56,856
Disposals and redemption	(1,349)	-	(20,900)	-	(22,249)
Loss from change in fair value	110	-		(112)	(2)
Realised gains/loss on sale	(359)	-	-	-	(359)
Less: allowance for impairment	-	-	(67)	-	(67)
At 31 December 2020	3,501	-	158,002	3,919	165,422

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

10. Investment securities (continued)

The following table contains their levels in the fair value hierarchy.

Consolidated

2020	Level 1 RO'000	Level 3 RO'000	Total RO'000
Investment measured at FVTPL			
Quoted investments	403	-	403
Investment measured at FVOCI			
Quoted investments	4,052	-	4,052
Unquoted investments	-	763	763
Debt investments measured at FVOCI			
Quoted investments	42,228	-	42,228
Investment measured at amortised cost			
Quoted investments	193,242	-	193,242
Gross financial investments	**239,925**	**763**	**240,688**
Less: allowance for impairment	(470)	-	(470)
Total financial investments	**239,455**	**763**	**240,218**

Parent Company

2020	Level 1 RO'000	Level 3 RO'000	Total RO'000
Investment measured at FVTPL			
Quoted investments	404	-	404
Investment measured at FVOCI			
Quoted investments	4,052	-	4,052
Unquoted investments	-	337	337
Investment measured at amortised cost			
Quoted investments	171,974	-	171,974
Gross financial investments	**176,430**	**337**	**176,767**
Less: allowance for impairment	(67)	-	(67)
Total financial investments	**176,363**	**337**	**176,700**

2019	Level 1 RO'000	Level 3 RO'000	Total RO'000
Investment measured at FVTPL			
Quoted investments	3,919	-	3,919
Investment measured at FVOCI			
Quoted investments	2,739	-	2,739
Unquoted investments	-	762	762
Investment measured at amortised cost			
Quoted investments	158,069	-	158,069
Total financial investments	164,727	762	165,489
Less: allowance for impairment	(67)	-	(67)
	164,660	762	165,422

Movement in allowances for the credit losses for debt securities at amortized cost:

	Consolidated 2020 RO'000	**Parent Company 2020 RO'000**	2019 RO'000
Beginning of the year	**67**	**67**	12
Provided during the year	**403**	**-**	55
Balance at the end of the year	**470**	**67**	67

10. Investment securities (continued)

All debt securities at amortized cost outstanding as of 31 December 2020 are classified under stage 1 by the Group (2019: stage 1). The Bank has assumed LGD of 0% on GDBs amounting to RO 162,589 thousand (2019: RO 143,994 thousand) and Government Sukuks amounting to RO 63,495 thousand (2019: RO 3,172 thousand).

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

	Bank's portfolio %	*Carrying value RO'000*
31 December 2020		
Government Development Bonds and sukuks (Consolidated)	**92%**	**221,739**
Government Development Bonds and sukuks (Parent Company)	**92%**	**162,589**
31 December 2019		
Government Development Bonds and sukuks	89%	147,166

During the year ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

11. Investment in a subsidiary

The Bank and the other shareholders have the following investment in a subsidiary.

Name of Subsidiary	**Country of Incorporation**	**% holding 2020**
Alizz Islamic Bank SAOC	Sultanate of Oman	**100%**

	RO'000
Investment made at acquisition of AIB (note 3.1 A)	**68,886**
Transfer of Al Yusr Islamic Window to AIB (note 3.1 B)	**18,758**
Additional investment made in AIB during the period	**19,500**
	107,144

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

Statement of financial position items	**2020 RO'000**
Total Assets	**866,249**
Total Liabilities	**765,620**
Share Capital	**139,500**

Income statement items	**From date of acquisition to 31 December 2020 RO'000**	**From 1 January to 31 December 2020 RO'000**
Operating income	**10,521**	**20,594**
Total expenses	**10,664**	**28,185**
Loss after tax	**(143)**	**(7,591)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

12. Property and equipment

Consolidated	**Land and buildings RO'000**	**Computer equipment RO'000**	**Equipment, furniture & fixtures RO'000**	**Motor vehicles RO'000**	**Capital work in progress RO '000**	**Right of use RO '000**	**Total RO'000**
2020							
Cost							
At 1 January 2020	**21,743**	**20,997**	**13,682**	**357**	**5,972**	**8,609**	**71,360**
Acquisition of Alizz	**-**	**6,907**	**3,843**	**-**	**101**	**-**	**10,851**
Initial recognition of IFRS 16 of Alizz	**-**	**-**	**-**	**-**	**-**	**740**	**740**
Additions	**99**	**1,704**	**448**	**-**	**7,277**	**-**	**9,528**
Transfers	**3,943**	**105**	**-**	**-**	**(4,048)**	**-**	**-**
Disposals	**-**	**(3,365)**	**(711)**	**(38)**	**-**	**-**	**(4,114)**
At 31 December 2020	**25,785**	**26,348**	**17,262**	**319**	**9,302**	**9,349**	**88,365**
Depreciation	**25,822**	**25,866**	**16,256**	**319**	**6,224**	**9,349**	**83,836**
At 1 January 2020	**3,908**	**15,761**	**9,950**	**294**	**-**	**1,722**	**31,635**
Acquisition of Alizz	**-**	**4,821**	**2,497**	**-**	**-**	**-**	**7,318**
Charge for the year	**670**	**2,614**	**1,658**	**30**	**-**	**1,908**	**6,880**
Disposals	**-**	**(3,327)**	**(708)**	**(38)**	**-**	**-**	**(4,073)**
At 31 December 2020	**4,578**	**19,869**	**13,397**	**286**	**-**	**3,630**	**41,760**
Net book value							
At 31 December 2020	**21,207**	**6,479**	**3,865**	**33**	**9,302**	**5,719**	**46,605**

12. Property and equipment (continued)

Parent Company	**Land and buildings RO'000**	**Computer equipment RO'000**	**Equipment, furniture & fixtures RO'000**	**Motor vehicles RO'000**	**Capital work in progress RO '000**	**Right of use RO 000**	**Total RO'000**
2020							
Cost							
At 1 January 2020	**21,743**	**20,997**	**13,682**	**357**	**5,972**	**8,609**	**71,360**
Al Yusr disposals	**-**	**(498)**	**(1,008)**	**-**	**(15)**	**-**	**(1,521)**
Additions	**99**	**1,334**	**397**	**-**	**7,244**	**-**	**9,074**
Transfers	**3,943**	**-**	**-**	**-**	**(3,943)**	**-**	**-**
Disposals	**-**	**(3,365)**	**(711)**	**(38)**	**-**	**-**	**(4,114)**
At 31 December 2020	**25,785**	**18,468**	**12,360**	**319**	**9,258**	**8,609**	**74,799**
Depreciation	**25,822**	**18,468**	**12,362**	**319**	**6,195**	**8,609**	**71,775**
At 1 January 2020	**3,908**	**15,761**	**9,950**	**294**	**-**	**1,722**	**31,635**
Al Yusr disposals	**-**	**(437)**	**(941)**	**-**	**-**	**-**	**(1,378)**
Charge for the year	**670**	**2,291**	**1,423**	**30**	**-**	**1,722**	**6,136**
Disposals	**-**	**(3,327)**	**(708)**	**(38)**	**-**	**-**	**(4,073)**
At 31 December 2020	**4,578**	**14,288**	**9,724**	**286**	**-**	**3,444**	**32,320**
Net book value							
At 31 December 2020	**21,207**	**4,180**	**2,636**	**33**	**9,258**	**5,165**	**42,479**

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

12. Property and equipment (continued)

	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & fixtures RO'000	Motor vehicles RO'000	Capital work in progress RO '000	Right of use RO 000	Total RO'000
2019							
Cost							
At 1 January 2019	21,571	22,310	14,070	646	1,441	8,609	68,647
Additions	-	1,392	797	39	4,531	-	6,759
Transfers	172	63	(234)	-	-	-	1
Disposals	-	(2,768)	(951)	(328)	-	-	(4,047)
At 31 December 2019	21,743	20,997	13,682	357	5,972	8,609	71,360
Depreciation							
At 1 January 2019	3,343	16,460	9,465	524	-	-	29,792
Charge for the year	565	2,031	1,421	73	-	1,722	5,812
Relating to transfer	-	-	-	-	-	-	-
Relating to disposals	-	(2,730)	(936)	(303)	-	-	(3,969)
At 31 December 2019	3,908	15,761	9,950	294	-	1,722	31,635
Net book value	17,835	5,236	3,732	63	5,972	6,887	39,725

13. Goodwill

Goodwill arising from the business combination has been recognised as follows:

	RO'000
Consideration transferred (noted 3.1 A)	**68,886**
Net assets provisionally recognised at the date of acquisition (note 3.1 A)	**62,381**
Goodwill arising on acquisition	**6,505**

The goodwill was recognized as a result of acquisition of Alizz Islamic Bank SAOC. At the reporting date, the Bank has tested the goodwill for impairment in accordance with IAS 36 "Impairment of Assets" and has not accounted for any impairment losses at 31 December 2020 since the estimated recoverable amount of the related business to which the provisional goodwill relates to exceed its carrying value**.**

The key assumptions forming the basis for the impairment test are as follows:

- Growth rate based on assumption that business shall grow average of 22% per annum for first 4 to 5 years
- Terminal value based on assumption that cash flow shall grow at 2%
- The discount factor in determining the recoverable amount is 13.34%

1% movement (plus or minus) in the above assumptions will result in a material change in the estimated recoverable amount of the related business resulting in impairment of Goodwill.

14. Other assets

	Consolidated 2020 RO 000	Parent Company 2020 RO 000	2019 RO 000
Customers' indebtedness against acceptances	**13,159**	**13,159**	21,988
Fees receivable	**1,691**	**1,691**	2,518
Interest receivable	**44,300**	**28,435**	22,329
Prepayments	**2,549**	**2,203**	2,825
Positive fair value of derivatives (note 38)	**1,088**	**1,088**	1,257
Deferred tax asset (note 19)	**2,459**	**-**	-
Others	**12,257**	**8,711**	4,269
	77,503	**55,287**	55,186

Interest receivables includes interest on non-performing loan of RO 8,023 thousands [Parent: RO 6,059 thousand] against which reserve interest has been carried and netted off in loans and advances (note 9).

Others include repossessed properties of RO 803,000 (2019 – RO 803,000) which will be sold as soon as practicable.

15. Due to banks

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Current accounts	**4,923**	**4,923**	7,725
Placements	**9,498**	**5,648**	23,740
	14,421	**10,571**	31,465

16. Deposits from customers

a) By type

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Term deposits	**1,256,283**	**927,000**	914,079
Demand and call accounts	**958,585**	**745,291**	777,386
Saving accounts	**540,442**	**358,471**	306,971
	2,755,310	**2,030,762**	1,998,436

b) By sector

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Private	**1,943,577**	**1,464,511**	1,318,713
Government	**811,733**	**566,251**	679,723
	2,755,310	**2,030,762**	1,998,436

17. Other liabilities

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Liabilities against acceptances	**13,159**	**13,159**	21,988
Interest payable	**30,269**	**22,519**	24,251
Accrued expenses and other payables	**13,931**	**8,829**	10,595
Cheques and trade settlement payable	**7,174**	**3,920**	2,756
Staff terminal benefits (note 34)	**1,131**	**873**	910
Interest and commission received in advance	**2,143**	**2,143**	2,858
Negative fair value of derivatives (note 38)	**445**	**445**	928
Deferred tax liability (note 19)	**-**	**408**	373
Lease liability	**5,976**	**5,401**	7,039
	74,228	**57,697**	71,698

Set out below are the carrying amount of lease liabilities and the movement during the year:

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
At 1 January	**7,039**	**7,039**	8,609
Acquisition of Alizz	**887**	**-**	-
Accretion of interest (note 29)	**293**	**282**	355
Payments made during the year	**(2,243)**	**(1,920)**	(1,925)
At 31 December	**5,976**	**5,401**	7,039

17.1 Staff terminal benefits

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
At 1 January	**910**	**910**	830
Transfer of Al Yusr	**-**	**(70)**	-
Acquisition of Alizz	**191**	**-**	-
Charge for the year	**227**	**192**	209
Payment to employees during the year	**(197)**	**(159)**	(129)
At 31 December	**1,131**	**873**	910

18. Subordinated debt

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

	Parent Company 2020 RO'000	2019 RO'000
Subordinated loans	**20,000**	20,000

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity. The Subsidiary has no subordinated debt at the reporting date.

19. Taxation

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Statement of profit or loss:			
Current tax:			
Current year	**2,730**	**2,730**	6,020
Prior years	**1,013**	**1,013**	388
Deferred tax:			-
Current year	**-**	**-**	-
Prior years	**35**	**35**	(200)
Tax expense for the year	**3,778**	**3,778**	6,208
Statement of financial position			
Provision for taxation	**4,507**	**4,507**	6,687
Deferred tax asset / (liability)	**2,459**	**(408)**	(373)
Deferred tax asset / (liability)			
At 1 January	**(373)**	**(373)**	(573)
Acquisition of Alizz	**2,867**	**-**	-
(Charge) / credit for the year	**(35)**	**(35)**	200
At 31 December 2020	**2,459**	**(408)**	(373)

19. Taxation (continued)

Consolidated	**01-Jan-20**	**Acquisition of Alizz**	**Charge for the year**	**31-Dec-20**
Property, plant and equipment	**(400)**	**(238)**	**(46)**	**(684)**
Unrealised loss on FVTPL investments	**4**	**-**	**(10)**	**(6)**
Right-of-use assets and lease liabilities	**23**	**-**	**13**	**36**
Carried forward taxable losses	**-**	**3,105**	**8**	**3,113**
	(373)	**2,867**	**(35)**	**2,459**

Parent Company	**01-Jan-20**	**Charge for the year**	**31-Dec-20**
Property, plant and equipment	**(400)**	**(38)**	**(438)**
Unrealised loss on FVTPL investments	**4**	**(10)**	**(6)**
Right-of-use assets and lease liabilities	**23**	**13**	**36**
	(373)	**(35)**	**(408)**

Details of tax losses of which deferred tax assets recognised by the Subsidiary are as below:

	2020 RO
Available until 31 December 2020 (declared)	**-**
Available until 31 December 2021 (declared)	**5,499,472**
Available until 31 December 2022 (declared)	**3,559,572**
Available until 31 December 2024 (declared)	**9,988,252**
Available until 31 December 2025 (estimated)	**7,512,118**

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15% (2019: 15%). For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes.

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Profit before tax	**17,949**	**18,093**	38,764
Tax at the applicable rate of 15%	**2,692**	**2,714**	5,815
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**73**	**51**	5
Prior year	**1,013**	**1,013**	388
Tax expense for the year	**3,778**	**3,778**	6,208

Status of tax assessments (Parent Company)

The tax returns of the Parent Company for the years 2018 to 2019 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Parent Company's financial position as at 31 December 2020.

19. Taxation (continued)

Status of tax assessments (Subsidiary)

The tax returns of the Subsidiary for the years 2018 to 2019 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Subsidiary's financial position as at 31 December 2020.

20. Share capital

The authorized capital of the Bank is RO 200,000,000 (2019: RO 200,000,000). Before acquisition of Alizz Islamic Bank SAOG, the Bank has issued, subscribed and fully paid 1,346,200,000 equity share of 100 baisa each. On 30 June 2020, the Bank issued additional 323,210,000 equity shares to the shareholders of Alizz Islamic Bank as a consideration for acquisition of 100 per cent control. Subsequently, the issued, subscribed and fully paid up share capital is comprising of 1,669,410,000 equity shares of 100 baisa each (2019: 1,346,200,000).

Number of shares of 100 Baiza of Oman Arab Bank SAOC as of 1 January 2020	1,346,200,000
Number of shares of 100 Baiza each issued to shareholders of Alizz Bank SAOG	323,210,000
Total number of shares as at 31 December 2020	1,669,410,000

The following shareholders of the Bank own 10% or more of the Bank's share capital:

31 December 2020

	Shareholding %	Number of shares	RO 000
Arab Bank PLC	49.00%	818,010,900	81,801
Oman International Development & Investment Co. SAOG	31.64%	528,189,100	52,819
Various parties, including Trusts	19.36%	323,210,000	32,321
	100.00%	**1,669,410,000**	**166,941**

31 December 2019

	Shareholding %	Number of shares	RO 000
Arab Bank PLC	49.00%	659,640,000	65,964
Oman International Development & Investment Co. SAOG	50.99%	686,430,000	68,643
Oman Real Estate Investment Services SAOC	0.01%	130,000	13
	100.00%	**1,346,200,000**	**134,620**

21. Share premium

The Bank has issued shares on premium for acquisition of AIB. Below is the summary of the reported share premium in the statement of financial position and statement of changes in equity:

Premium per shares (RO) – A	**0.113**
Issue of shares to shareholders of AIB (323,210,000) – B	**32,321**
Share premium (A x B) (RO thousands)	**36,565**

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22. General reserve

The Bank has established a policy to set aside a portion of the profit each year to a 'General reserve' in order to meet any unforeseen contingencies. No transfers were made from / to general reserve during the year 2020 and 2019.

23. Subordinated debt reserve

The subordinated debt reserve has been created by a transfer of 20% of the subordinated loans out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated loans which are due to mature within five years (refer note 18). The reserve is available for transfer back to retained earnings upon maturity of the subordinated debt.

24. Special reserve

During 2015 the Bank sold its old head office premises at Ruwi. Following its move to the new premises at Al Ghoubra, the profit on sale of the premises of RO 2.4 million has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution.

The Central Bank of Oman via circular BSD/CB/FLC/2018/15 dispensed with the specific provision / special reserve requirements of 15 per cent applicable to restructured accounts other than non-performing loans. The circular further states that the existing balance of reserves required under circulars namely BSD/2016/BKUP/Banks-FLCs/447 and BSD/2017/BKUP/Banks-FLCs/467, would continue until such loans are upgraded. Accordingly, the Bank has not transferred any amount in 2019 and 2020 from retained earnings to special reserve. The existing amount of RO 1.4 million (2019: RO 1.4 million) is included in the special reserve.

25. Perpetual Tier 1 Capital Bonds

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

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

The Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The Bond under note (a) has First Call Date on 29 January 2022 and bond under note (b) has First Call date on 17 October 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

26. Legal reserve

In accordance with Article 132 of the Commercial Companies Law, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

27. Dividend proposed and paid

The Board of Directors proposed a NIL cash dividend for the year ended 31 December 2020 which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2021.

At the Annual General Meeting held on 24 March 2020, a cash dividend of RO 0.011 per share totalling to RO 14.81 million for the year ended 31 December 2019 was approved and subsequently paid.

28. Interest income

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Loans and advances	**107,632**	**107,632**	104,463
Oman Government Development Bonds and Sukuk	**8,886**	**8,886**	6,861
Treasury bills	**-**	**-**	369
Placements with banks	**1,470**	**1,470**	2,232
	117,988	**117,988**	113,925

29. Interest expense

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Time deposits	**34,506**	**34,506**	30,572
Subordinated debt	**1,103**	**1,103**	1,100
Call accounts	**4,575**	**4,575**	4,199
Bank borrowings	**4,514**	**4,514**	2,886
Savings accounts	**2,879**	**2,879**	2,292
Interest cost on lease liabilities	**293**	**282**	355
Others	**93**	**93**	236
	47,963	**47,952**	41,640

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

30. Net income from Islamic financing

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Income from Islamic financing	**24,221**	**3,421**	7,296
Income from Government Sukuk	**1,394**	**81**	-
Profit paid to participatory deposits	**(15,512)**	**(2,509)**	(4,549)
Net income from Islamic activities	**10,103**	**993**	2,747

31. Net fee and commission income

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Fee and commission income	**16,395**	**15,171**	12,868
Fee and commission expense	**(899)**	**(896)**	(1,480)
	15,496	**14,275**	11,388

32. Net (loss) / income from investment securities

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Fair value changes	**(71)**	**(71)**	(112)
Loss on sale of investments	**(134)**	**-**	-
Dividend income	**71**	**71**	189
	(134)	**-**	77

33. Other operating income

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Exchange income	**5,508**	**5,173**	6,300
Other income	**47**	**47**	165
	5,555	**5,220**	6,465

33. Other operating income (continued)

33.1 Disaggregation of fees and commission income

2020 Consolidated	Retail RO'000	Corporate RO'000	Islamic Banking RO'000	Total RO'000
Transactional Income	5,880	934	659	7,473
Trade Income	-	4,982	187	5,169
Loans related income	563	1,320	971	2,854
Other operating income	6,443	7,236	1,817	15,496

2020 Parent Company	Retail RO'000	Corporate RO'000	Islamic Banking RO'000	Total RO'000
Transactional Income	5,880	934	596	7,410
Trade Income	-	4,981	-	4,981
Loans related income	563	1,321	-	1,884
Other operating income	6,443	7,236	596	14,275

2019	Retail RO'000	Corporate RO'000	Islamic Banking RO'000	Total RO'000
Transactional Income	2,038	222	737	2,997
Trade Income	-	6,138	-	6,138
Loans related income	621	1,632		2,253
Other operating income	2,659	7,992	737	11,388

34. Operating expenses

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Staff costs (refer below)	33,026	26,574	29,661
Other operating expenses	19,081	16,168	12,868
Operational loss (refer below)	6,223	6,223	245
Depreciation	6,880	6,136	5,812
Directors' remuneration	198	198	79
	65,408	55,299	48,665

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

34. Operating expenses (continued)

A. Staff costs

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Details of staff costs are as follows:			
Salaries	21,870	17,827	20,408
Allowances	6,849	5,387	5,592
Social security costs	2,346	1,964	2,028
End of service benefits	227	192	209
Other costs	1,734	1,204	1,424
	33,026	26,574	29,661

The Bank employed 1,523 staff as at 31 December 2020 (Consolidated) [2020:1,145 staff (Parent Company), 2019:1,240 staff].

B. Operational loss

The operational loss represents an exceptional loss provision of RO 6.22 million on account of forgery and embezzlement by an employee along with his external accomplices. The Bank has filed a criminal complaint with the concerned authorities and the criminal investigation is underway for appropriate legal action. The incident has been reported to the regulatory authorities and appropriate disclosure has been made on the Muscat Securities Market. The Bank is pursuing all option to recover the amount including claim has been notified to the insurance company under Banker's blanket bond (BBB) insurance policy of the Bank.

35. Earnings per share

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

	Consolidated 2020	Parent Company 2020	2019
Profit for the year (RO'000)	**14,171**	**14,315**	32,556
Less: Interest distribution of Perpetual Tier 1 capital bonds (RO'000)	**(5,516)**	**(5,516)**	(5,534)
Profit for the period attributable to equity holders of the Bank (RO'000)	**8,655**	**8,799**	27,022
Weighted average number of shares outstanding during the year	**1,507,805,000**	**1,507,805,000**	1,346,200,000
Basic earning per share (RO)	**0.006**	**0.006**	0.020

Weighted average number of shares outstanding

	Number of Shares	Time Weighting	Weighted Average Shares
1 January 2020 to 29 June 2020	1,346,200,000	6/12	673,100,000
30 June 2020 to 31 December 2020	1,669,410,000	6/12	834,705,000
Weighted average number of shares as at 31 December 2020			**1,507,805,000**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

36. Related party transactions

Management service agreement with a shareholder
The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2020, the management fees in accordance with the agreement amounted to RO 57,500 (2019: RO 97,671).

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

Consolidated

2020	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**24,014**	**95,602**	**119,616**
Other assets	**-**	**-**	**-**
Customers' deposits	**31,429**	**34,739**	**66,168**
Due from banks	**3,560**	**-**	**3,560**
Due to banks	**7,039**	**20,000**	**27,039**
Stand by line of credit	**38,500**	**-**	**38,500**
Letters of credit, guarantees and acceptances	**95,890**	**1,455**	**97,345**

Parent Company

2020	**Subsidiary RO'000**	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**452**	**24,014**	**83,344**	**107,810**
Customers' deposits	**88**	**31,429**	**33,654**	**65,171**
Due from banks	**20,000**	**3,560**	**-**	**23,560**
Due to banks	**-**	**7,039**	**-**	**7,039**
Stand by line of credit	**-**	**38,500**	**-**	**38,500**
Letters of credit, guarantees and acceptances	**-**	**95,890**	**1,455**	**97,345**

2019	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	-	76,431	76,431
Other assets	5,640	-	5,640
Customers' deposits	4,277	46,135	50,412
Due from banks	15,836	-	15,836
Due to banks	1,434	-	1,434
Stand by line of credit	38,500	-	38,500
Letters of credit, guarantees and acceptances	136,786	4,800	141,586

36. Related party transactions (continued)

Movement of loans and advances given to related parties:

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
At 1 January 2020	**76,431**	**76,431**	69,911
Disbursed during the year	**379,554**	**367,748**	268,597
Paid during the year	**(336,821)**	**(336,821)**	(262,077)
At 31 December 2020	**119,616**	**107,810**	76,431

None of the loans and advances given to related parties were identified as impaired and in accordance with IFRS 9, ECL provision amounting to RO 785,900 (Consolidated),[2020:RO 711,954 (Parent); 2019: RO 368,920 (Parent)] has been recognised against related party receivables.

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

Consolidated

31 December 2020	2020 Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	**1,223**	**3,370**	**4,593**
Interest expense	**770**	**946**	**1,716**

Parent Company

31 December 2020	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	**708**	**3,370**	**4,078**
Interest expense	**770**	**946**	**1,716**

31 December 2019	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	272	2,895	3,167
Interest expense	339	718	1,057

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

36. Related party transactions (continued)

Key management compensation

The Directors' remuneration is set out in Note 34. The remuneration of other members of key management during the year was as follows:

	2020 RO'000	2019 RO'000
Salaries and other short-term benefits	**1,177**	1,287
End of service benefits	**11**	39
	1,188	1,326

37. Cash and cash equivalents

	Consolidated 2020 RO'000	Parent Company 2020 RO'000	2019 RO'000
Cash and balances with the Central Bank of Oman (CBO) (note 7)	**220,975**	**173,652**	179,664
Due from banks	**59,782**	**57,995**	30,802
Less: due to banks (note 15)	**(14,421)**	**(10,571)**	(31,465)
Restricted deposits included under balances with the CBO	**(1,025)**	**(500)**	(500)
	265,311	**220,576**	178,501

38. Derivative financial instruments

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

Also, the Bank has entered into IRS (Interest Rate Swaps) on behalf of its clients and has fully covered the position on back-to-back basis, leaving no open position on the Bank's books. An IRS is an agreement between two counterparties to exchange a stream of fixed interest payments for floating (variable) interest payments on a specified notional amount. A floating rate borrower can fix his floating liabilities payment by entering into ―payer swap, in which he pays the fixed rate. the Bank is not exposed to entire notional amount of IRS, rather, its risk is limited only to the amount of differential interest payment which the client may not honor at the time of settlement.

38. Derivative financial instruments (continued)

These fair values and the notional contracted amounts related to the Parent Company are summarised below. As of reporting date, Subsidiary has no derivative instruments.

31 December 2020	***Positive fair value RO'000***	***Negative fair value RO'000***	***Notional amount RO'000***	***Within 3 months RO'000***	***3 - 12 months RO'000***	***More than 1 year RO'000***
Purchase contracts	**574**	**-**	**90,456**	**74,952**	**15,504**	**-**
Sale contracts	**-**	**(163)**	**(90,045)**	**(74,613)**	**(15,432)**	**-**
Interest rate swaps	**514**	**(282)**	**8,653**	**-**	**-**	**8,653**
	1,088	**(445)**	**9,064**	**339**	**72**	**8,653**

31 December 2019	*Positive fair value RO'000*	*Negative fair value RO'000*	*Notional Amount RO'000*	*Within 3 months RO'000*	*3 - 12 months RO'000*	*More than 1 year RO'000*
Purchase contracts	226	-	86,074	75,561	10,513	-
Sale contracts	-	(196)	(86,043)	(75,571)	(10,472)	-
Interest rate swaps	1,031	(732)	9,465	-	-	9,465
	1,257	(928)	9,496	(10)	41	9,465

Derivative financial instruments are fair valued as level 2.

39. Net assets per share

The calculation of net assets per share is based on net assets as at 31 December 2020 attributable to ordinary shareholders of RO 166,941 million (2019: RO 134,620 million) and on 1,669,410,000 ordinary shares (2019 – 1,346,200,000 ordinary shares) being the number of shares outstanding as at 31 December 2020.

	Conolidated 31-Dec-20	**Parent Company 31-Dec-20**	31-Dec-19
Total equity (RO'000)	**359,024**	**359,033**	296,290
Number of shares	**1,669,410,000**	**1,669,410,000**	1,346,200,000
Net assets per share	**0.215**	**0.215**	0.220

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

40. Contingent liabilities and commitments

(a) Letters of credit and guarantees

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

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

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

	Consolidated 2020 RO'000	**Parent Company 2020 RO'000**	2019 RO'000
Letters of credit	**77,600**	**73,635**	162,993
Guarantees	**251,150**	**221,837**	405,769
Financial Guarantees	**141,928**	**107,220**	151,267
	470,678	**402,692**	720,029

As at 31 December 2020, the unutilised commitment of facilities of RO 473,172,481 (Consolidated), [Parent (2020: RO 438,464,519); (2019:534,361,082)].

Letters of credit and guarantees amounting to [Parent RO 193,971,021 (2019: 380,730,129)] were counter guaranteed by other banks. As of reporting date the subsidiary has no material letters of credit and guarantees that were counter guaranteed by other banks.

(i) The allowances for credit losses for commitments and financial guarantees is included under note 9.

(ii) Contingent liabilities include RO 4,618,965 (Consolidated), [Parent (2020: RO 4,246,491; (2019: RO: 8,712,526) relating to non-performing loans.

40. Contingent liabilities and commitments (continued)

(a) Letters of credit and guarantees (continued)

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

	Consolidated 2020 RO'000		Parent Company 2020 RO'000		2019 RO'000	
Construction	**34,335**	**7%**	**19,743**	**5%**	73,657	10%
Utilities	**226,983**	**48%**	**223,760**	**56%**	355,105	49%
Export trade	**45,857**	**10%**	**45,790**	**11%**	113,177	16%
Government	**23,505**	**5%**	**19,743**	**5%**	30,323	4%
Import trade	**44,483**	**9%**	**27,845**	**7%**	47,034	7%
Transportation	**553**	**0%**	**-**	**0%**	3,145	0%
Wholesale and retail trade	**22,975**	**5%**	**13,162**	**3%**	19,808	3%
Services	**65,231**	**14%**	**49,359**	**12%**	76,677	11%
Manufacturing	**4,621**	**1%**	**2,303**	**1%**	538	0%
Mining & Quarrying	**2,135**	**1%**	**987**	**0%**	565	0%
	470,678	**100%**	**402,692**	**100%**	720,029	100%

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

	Consolidated 31-Dec-20		Parent Company 31-Dec-20		31-Dec-19	
	Notional principal amount	**Risk-weighted exposure**	**Notional principal amount**	**Risk-weighted exposure**	Notional principal amount	Risk-weighted exposure
Guarantees	**393,078**	**78,616**	**329,057**	**65,811**	557,036	111,407
Letters of credit	**77,600**	**15,520**	**73,635**	**14,727**	162,993	32,599
	470,678	**94,136**	**402,692**	**80,538**	720,029	144,006

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 7,790,879 (2019: RO 5,733,038).

(c) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements (2019: Nil).

41. Assets and liabilities maturity profile

The Bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in note 5.3. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

Consolidated

2020	**On demand or within 3 months RO'000**	**3 to 12 months RO'000**	**Sub total RO'000**	**1 to 5 Years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Assets						
Cash and balances with the Central Bank of Oman	181,418	12,126	193,544	12,447	14,984	220,975
Due from banks	59,782	13,000	72,782	-	-	72,782
Loans and advances	516,954	263,185	780,139	778,421	1,076,895	2,635,455
Investment securities	49,052	-	49,052	96,481	94,685	240,218
Goodwill	-	-	-	-	6,505	6,505
Other assets	55,225	22,253	77,478	-	25	77,503
Property and equipment	-	-	-	-	46,605	46,605
Total assets	**862,431**	**310,564**	**1,172,995**	**887,349**	**1,239,699**	**3,300,043**
Liabilities						
Due to banks	14,421	-	14,421	-	-	14,421
Deposits from customers	383,484	752,188	1,135,672	849,320	770,318	2,755,310
Other liabilities	41,814	9,953	51,767	22,461	-	74,228
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	4,099	-	4,099	408	-	4,507
Total liabilities	**443,818**	**782,141**	**1,225,959**	**872,189**	**770,318**	**2,868,466**
Net assets (Total equity)	**418,613**	**(471,577)**	**(52,964)**	**15,160**	**469,381**	**431,577**
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	74,952	15,504	90,456	-	-	90,456
Sale contracts	(74,613)	(15,432)	(90,045)	-	-	(90,045)
	339	**72**	**411**	**-**	**-**	**411**

41. Assets and liabilities maturity profile (continued)

Parent Company

2020	**On demand or within 3 months RO'000**	**3 to 12 months RO'000**	**Sub total RO'000**	**1 to 5 Years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Assets						
Cash and balances with the Central Bank of Oman	134,620	12,126	146,746	12,447	14,459	173,652
Due from banks	57,995	13,000	70,995	-	-	70,995
Loans and advances	435,086	161,584	596,670	505,761	826,435	1,928,866
Investment securities	6,806	-	6,806	75,209	94,685	176,700
Investments in subsidiary	-	-	-	-	107,144	107,144
Other assets	55,016	271	55,287	-	-	55,287
Property and equipment	-	-	-	-	42,479	42,479
Total assets	**689,523**	**186,981**	**876,504**	**593,417**	**1,085,202**	**2,555,123**
Liabilities						
Due to banks	10,571	-	10,571	-	-	10,571
Deposits from customers	302,257	543,938	846,195	558,360	626,207	2,030,762
Other liabilities	41,814	10,236	52,050	5,647	-	57,697
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	4,099	-	4,099	408	-	4,507
Total liabilities	**358,741**	**574,174**	**932,915**	**564,415**	**626,207**	**2,123,537**
Net assets (Total equity)	**330,782**	**(387,193)**	**(56,411)**	**29,002**	**458,995**	**431,586**
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	74,952	15,504	90,456	-	-	90,456
Sale contracts	(74,613)	(15,432)	(90,045)	-	-	(90,045)
	339	**72**	**411**	**-**	**-**	**411**

NOTES TO THE FINANCIAL STATEMENTS (continued)
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41. Assets and liabilities maturity profile (continued)

2019	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	130,323	20,369	150,692	11,663	17,309	179,664
Due from banks	50,802	-	50,802	-	-	50,802
Loans and advances	441,277	170,423	611,700	504,950	889,680	2,006,330
Investment securities	10,389	2,407	12,796	57,464	95,162	165,422
Other assets	45,431	9,649	55,080	97	9	55,186
Property and equipment	-	-	-	-	39,725	39,725
Total assets	678,222	202,848	881,070	574,174	1,041,885	2,497,129
Liabilities	31,465	-	31,465	-	-	31,465
Due to banks	275,733	706,688	982,421	415,080	600,935	1,998,436
Deposits from customers	42,415	20,520	62,935	8,302	461	71,698
Other liabilities	-	-	-	-	-	-
Subordinated loans	-	-	-	20,000	-	20,000
Taxation	5,914	373	6,287	400	-	6,687
Total liabilities	355,527	727,581	1,083,108	443,782	601,396	2,128,286
Net assets	322,695	(524,733)	(202,038)	130,392	440,489	368,843
Forward exchange contracts at notional amounts (note 38)						
Purchase contracts	75,561	10,513	86,074	-	-	86,074
Sale contracts	(75,571)	(10,472)	(86,043)	-	-	(86,043)
	(10)	41	31	-	-	31

41. Assets and liabilities maturity profile (continued)

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

Consolidated

2020	**On demand or within 3 months RO'000**	**3 to 12 months RO'000**	**1 to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Letters of guarantee	**269,210**	**84,284**	**34,235**	**5,349**	**393,078**
Letters of credit	**68,165**	**8,905**	**530**	**-**	**77,600**
Total commitments and contingencies	**337,375**	**93,189**	**34,765**	**5,349**	**470,678**

Parent Company

2020	**On demand or within 3 months RO'000**	**3 to 12 months RO'000**	**1 to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Letters of guarantee	**251,284**	**55,533**	**22,137**	**103**	**329,057**
Letters of credit	**65,216**	**8,419**	**-**	**-**	**73,635**
Total commitments and contingencies	**316,500**	**63,952**	**22,137**	**103**	**402,692**

2019	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Letters of guarantee	256,003	263,464	36,549	1,020	557,036
Letters of credit	134,494	28,132	367	-	162,993
Total commitments and contingencies	390,497	291,596	36,916	1,020	720,029

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

41. Assets and liabilities re-pricing profile (continued)

The details of Bank's capital commitments and unutilised loan commitments are disclosed in note 40.

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

Consolidated 2020	**Average effective interest rate %**	**Within 3 months RO'000**	**4 to 6 months RO'000**	**7 to 12 months RO'000**	**> 1 to 5 years RO'000**	**Over 5 years RO'000**	**Non-interest bearing RO'000**	**Total RO'000**
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	178,126	220,975
Due from banks	2.25	32,903	-	-	-	-	39,879	72,782
Loans and advances	5.58	1,125,212	126,175	164,630	1,196,621	22,817	-	2,635,455
at FVTPL & FVOCI		-	-	-	42,251	-	4,792	47,043
Amortized Cost	5.15	2,378	-	-	88,583	102,214	-	193,175
Goodwill		-	-	-	-	-	6,505	6,505
Other assets		44,017	-	-	-	-	33,486	77,503
Property and equipment		-	-	-	-	-	46,605	46,605
Total assets		**1,246,859**	**126,175**	**164,630**	**1,327,455**	**125,531**	**309,393**	**3,300,043**
Liabilities								
Due to banks	1.78	8,767	-	-	-	-	5,654	14,421
Deposits from customers	3.16	583,912	527,766	778,866	286,301	-	578,465	2,755,310
Other liabilities		7,174	-	-	-	-	67,054	74,228
Subordinated debt	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,507	4,507
Total liabilities		**599,853**	**547,766**	**778,866**	**286,301**	**-**	**655,680**	**2,868,466**
Total interest sensitivity gap		**647,006**	**(421,591)**	**(614,236)**	**1,041,154**	**125,531**	**(346,287)**	**431,577**
Cumulative interest sensitivity gap		**647,006**	**225,415**	**(388,821)**	**652,333**	**777,864**	**431,577**	

41. Assets and liabilities re-pricing profile (continued)

Parent Company

2020	**Average effective interest rate %**	**Within 3 months RO'000**	**4 to 6 months RO'000**	**7 to 12 months RO'000**	**> 1 to 5 years RO'000**	**Over 5 years RO'000**	**Non-interest bearing RO'000**	**Total RO'000**
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	130,803	173,652
Due from banks	2.41	32,904	-	-	-	-	38,091	70,995
Loans and advances	5.55	719,454	45,682	15,891	1,146,957	882	-	1,928,866
at FVTPL & FVOCI		-	-	-	-	-	4,792	4,792
Investments in subsidiary		-	-	-	-	107,144	-	107,144
Amortized Cost	5.36	2,378	-	-	88,583	80,947	-	171,908
Other assets		44,300	-	-	-	-	10,987	55,287
Property and equipment		-	-	-	-	-	42,479	42,479
Total assets		**841,385**	**45,682**	**15,891**	**1,235,540**	**189,473**	**227,152**	**2,555,123**
Liabilities								
Due to banks	1.75	4,917	-	-	-	-	5,654	10,571
Deposits from customers	2.31	338,912	504,027	502,619	151,071	-	534,133	2,030,762
Other liabilities		7,174	-	-	-	-	50,523	57,697
Subordinated debt	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,507	4,507
Total liabilities		**351,003**	**524,027**	**502,619**	**151,071**	**-**	**594,817**	**2,123,537**
Total interest sensitivity gap		**490,382**	**(478,345)**	**(486,728)**	**1,084,469**	**189,473**	**(367,665)**	**431,586**

41. Assets and liabilities re-pricing profile (continued)

2019	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,350	-	-	-	500	136,814	- 179,664
Due from banks	2.41	38,776	-	-	-	-	12,026	50,802
Loans and advances	5.50	753,736	79,398	48,770	1,088,673	17,749	18,004	2,006,330
Investment securities at FVTPL & FVOCI		-	-	-	-	-	7,420	7,420
Investment at amottized cost	5.31	1,500	2,407	-	58,955	95,140	-	158,002
Other assets		22,330	-	-	-	-	32,856	55,186
Property and equipment		-	-	-	-	-	39,725	39,725
Total assets		858,692	81,805	48,770	1,147,628	113,389	246,845	2,497,129
Liabilities								
Due to banks	3.18	25,441	-	-	-	-	6,024	31,465
Deposits from customers	2.01	578,740	226,546	534,086	180,890	-	478,174	1,998,436
Other liabilities		2,756	-	-	-	-	68,942	71,698
Subordinated Debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	6,687	6,687
Total liabilities		606,937	226,546	534,086	200,890	-	559,827	2,128,286
Total interest sensitivity gap		251,755	(144,741)	(485,316)	946,738	113,389	(312,982)	368,843
Cumulative interest sensitivity gap		251,755	107,014	(378,302)	568,436	681,825	368,843	

42. Geographical distribution of assets and liabilities

Consolidated	**Sultanate of**	**Other GCC**		**United States of**		
2020	**Oman**	**countries**	**Europe**	**America**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Assets						
Cash and balances with the Central Bank of Oman	**220,975**	**-**	**-**	**-**	**-**	**220,975**
Due from banks	**32,976**	**6,006**	**14,392**	**18,550**	**858**	**72,782**
Loans and advances	**2,635,455**	**-**	**-**	**-**	**-**	**2,635,455**
Investment securities	**238,672**	**1,225**	**-**	**-**	**321**	**240,218**
Goodwill	**6,505**	**-**	**-**	**-**	**-**	**6,505**
Other assets	**77,503**	**-**	**-**	**-**	**-**	**77,503**
Property and equipment	**46,605**	**-**	**-**	**-**	**-**	**46,605**
Total assets	**3,258,691**	**7,231**	**14,392**	**18,550**	**1,179**	**3,300,043**
Liabilities						
Due to banks	**1,737**	**12,234**	**358**	**-**	**92**	**14,421**
Deposits from customers	**2,754,201**	**1,109**	**-**	**-**	**-**	**2,755,310**
Other liabilities	**74,228**	**-**	**-**	**-**	**-**	**74,228**
Subordinated bonds	**20,000**	**-**	**-**	**-**	**-**	**20,000**
Taxation	**4,507**	**-**	**-**	**-**	**-**	**4,507**
Total liabilities	**2,854,673**	**13,343**	**358**	**-**	**92**	**2,868,466**

Parent Company	**Sultanate of**	**Other GCC**		**United States of**		
2020	**Oman**	**countries**	**Europe**	**America**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Assets						
Cash and balances with the Central Bank of Oman	**173,652**	**-**	**-**	**-**	**-**	**173,652**
Due from banks	**32,976**	**5,089**	**13,556**	**18,550**	**824**	**70,995**
Loans and advances	**1,928,866**	**-**	**-**	**-**	**-**	**1,928,866**
Investment securities	**176,314**	**65**	**-**	**-**	**321**	**176,700**
Investments in subsidiary	**107,144**	**-**	**-**	**-**	**-**	**107,144**
Other assets	**55,287**	**-**	**-**	**-**	**-**	**55,287**
Property and equipment	**42,479**	**-**	**-**	**-**	**-**	**42,479**
Total assets	**2,516,718**	**5,154**	**13,556**	**18,550**	**1,145**	**2,555,123**
Liabilities						
Due to banks	**1,737**	**8,384**	**358**	**-**	**92**	**10,571**
Deposits from customers	**2,030,762**	**-**	**-**	**-**	**-**	**2,030,762**
Other liabilities	**57,697**	**-**	**-**	**-**	**-**	**57,697**
Subordinated bonds	**20,000**	**-**	**-**	**-**	**-**	**20,000**
Taxation	**4,507**	**-**	**-**	**-**	**-**	**4,507**
Total liabilities	**2,114,703**	**8,384**	**358**	**-**	**92**	**2,123,537**

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

42. Geographical distribution of assets and liabilities (continued)

	Sultanate of	Other GCC		United States of		
2019	Oman	countries	Europe	America	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets						
Cash and balances with the Central Bank of Oman	179,664	-	-	-	-	179,664
Due from banks	25,145	3,462	2,753	5,512	13,930	50,802
Loans and advances	2,006,330	-	-	-	-	2,006,330
Investment securities	163,727	1,103	-	-	592	165,422
Other assets	55,186	-	-	-	-	55,186
Property and equipment	39,725	-	-	-	-	39,725
Total assets	2,469,777	4,565	2,753	5,512	14,522	2,497,129
Liabilities						
Due to banks	15,674	7,973	7,375	-	443	31,465
Deposits from customers	1,998,436	-	-	-	-	1,998,436
Other liabilities	71,698	-	-	-	-	71,698
Subordinated bonds	20,000	-	-	-	-	20,000
Taxation	6,687	-	-	-	-	6,687
Total liabilities	2,112,495	7,973	7,375	-	443	2,128,286

43. Customer concentration

Consolidated 2020	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	**-**	**1,042,859**	**-**	**976,746**	**-**	**143**
Corporate	**72,782**	**1,696,813**	**14,603**	**966,831**	**14,421**	**279,021**
Government	**-**	**-**	**226,085**	**811,733**	**-**	**191,514**
	72,782	**2,739,672**	**240,688**	**2,755,310**	**14,421**	**470,678**

Parent Company	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	**-**	**722,479**	**-**	**497,680**	**-**	**143**
Corporate	**70,995**	**1,278,581**	**18,949**	**966,831**	**10,571**	**211,035**
Government	**-**	**-**	**221,739**	**566,251**	**-**	**191,514**
	70,995	**2,001,060**	**235,470**	**2,030,762**	**10,571**	**402,692**

2019	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	-	762,327	-	591,899	-	533
Corporate	50,802	1,296,025	18,256	726,814	31,465	376,992
Government*	-	1,538	147,166	679,723	-	342,504
	50,802	2,059,890	165,422	1,998,436	31,465	720,029

* The government accounts summarised under this note does not include the semi-government or quasi government accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

44. Segment information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2020. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2020 and 2019 is set out in note 42.

For management purposes, the conventional operations of the Bank is organised into five operating segments based on products and services. The Islamic banking services are offered through Alizz Islamic Bank. The operating segments are as follows:

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

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

Cash and balances with Central Bank of Oman, Certificate of Deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.

44. Segment information (continued)

Consolidated 2020	Retail RO'000	Corporate RO'000	Treasury RO'000	Others RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	31,347	27,698	9,287	1,705	(12)	70,025
Net income from Islamic financing	-	-	-	-	10,103	10,103
Other operating income	7,907	8,119	2,871	-	2,020	20,917
Total operating income	39,254	35,817	12,158	1,705	12,111	101,045
Operating expenses (incl. depreciation)	(27,780)	(16,988)	(2,963)	(6,620)	(11,057)	(65,408)
Net impairment losses on financial assets	(1,529)	(15,455)	-	-	(704)	(17,688)
Tax expenses	-	-	-	(3,778)	-	(3,778)
Profit (Loss) for the year	9,945	3,374	9,195	(8,693)	350	14,171
Assets	716,496	1,211,962	401,347	103,988	866,250	3,300,043
Liabilities	754,540	1,275,815	10,571	61,920	765,620	2,868,466
Allowance for impairment	(12,413)	(59,781)	(97)	-	(32,023)	(104,314)

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31 December 2020

44. Segment information (continued)

Parent Company 2020	Retail RO'000	Corporate RO'000	Treasury RO'000	Others RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	31,347	27,698	9,287	1,704	-	70,036
Net income from Islamic financing	-	-	-	-	993	993
Other operating income	7,907	8,119	2,873	-	596	19,495
Total operating income	39,254	35,817	12,160	1,704	1,589	90,524
Operating expenses (incl. depreciation)	(27,780)	(16,988)	(2,963)	(6,619)	(949)	(55,299)
Net impairment losses on financial assets	(1,529)	(15,455)	-	-	(148)	(17,132)
Tax expenses	-	-	-	(3,778)	-	(3,778)
Profit (Loss) for the year	9,945	3,374	9,197	(8,693)	492	14,315
Assets	716,496	1,213,180	421,347	204,100	-	2,555,123
Liabilities	754,540	1,276,223	30,571	62,203	-	2,123,537
Allowance for impairment	(12,413)	(59,781)	(96)	-	-	(72,290)

44. Segment information (continued)

Consolidated 2019	Retail RO'000	Corporate RO'000	Treasury RO'000	Others RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	26,493	36,004	7,362	2,426	-	72,285
Net income from Islamic financing	-	-	-		2,747	2,747
Other operating income	4,683	9,517	2,843	-	887	17,930
Total operating income	31,176	45,521	10,205	2,426	3,634	92,962
Operating expenses (incl. depreciation)	(27,219)	(16,552)	(2,923)	30	(2,001)	(48,665)
Net impairment losses on financial assets	(1,511)	(2,316)	-	(55)	(1,652)	(5,533)
Tax expenses	-	-	-	(6,208)	-	(6,208)
Profit (Loss) for the year	2,447	26,653	7,282	(3,807)	(19)	32,556
Assets	720,133	1,149,911	388,468	73,136	165,479	2,497,127
Liabilities	561,785	1,292,571	31,465	95,253	147,212	2,128,286
Allowance for impairment	(8,405)	(41,739)	(354)	-	(3,062)	(53,560)

45. Comparative figures

Certain comparative figures for 2019 have been reclassified in order to conform to the presentation for the current year.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

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Independent Auditors' Report on factual findings to the Board of Directors of Oman Arab Bank SAOG in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures and Basel III related disclosures ("the Disclosures") set out on pages 1 to 47 of Oman Arab Bank SAOG and its subsidiary (the "Bank" or "Group") as at and for the year ended 31 December 2020. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services No. 4400 applicable to agreed-upon procedures engagements. The Procedures set out in the Circular No. BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1114 dated 17 November 2013 and Circular No. 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and letter BSD/CB/2020/05 dated 3 June 2020.

We report our findings as follows:

As a result of performing the above procedures, we have no exceptions to report.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO; and we accept no liability or responsibility to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

KPMG

15 March 2021

KPMG LLC

KPMG LLC
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CR No. 1358131

Tax Card No. 8063052

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

A. SCOPE OF APPLICATION

Oman Arab Bank SAOG (the Parent Company) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. On 6 July 2020, Oman Arab Bank SAOC was listed in listed on Muscat Securities Market (MSM) and consequently the name was changed from Oman Arab Bank SAOC to Oman Arab Bank SAOG. The Parent Company is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the bank is North Al Ghoubra, P.O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, Sultanate of Oman. The Parent Company was a subsidiary of Oman International Development and Investment Company SAOG up to 29 June 2020 and from 30 June 2020, Arab Bank PLC, an entity based in Jordan, holds 49% shareholding in the Parent Company.

On 6 July 2020, the Parent Company transferred its Islamic Window (Al Yusr) to AIB. Hence, the Parent Company is now having AIB as a separate Islamic Banking subsidiary. Al Yusr Islamic Window has been transferred based on net assets value as of 30 June 2020 as common control transaction.

This is first set of consolidated financial statements being prepared by the Bank after acquisition of the AIB and disposal of Al Yusr to the AIB. Consolidated financial statements comprises of the results of the Bank for the year and AIB (subsidiary) from date of acquisition. Parent Company financial statements comprises of the results of the Parent Company for the year and Al Yusr until 30 June 2020.

The Bank's objectives of capital management are:

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

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

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

B. CAPITAL STRUCTURE

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

	2020 Consolidated RO '000	2020 Parent Company RO '000
Paid up share capital	166,941	166,941
Share premium	36,565	36,565
Legal reserve	46,178	46,178
General reserve	25,560	25,560
Special reserve	2,400	2,400
Subordinated Debt reserve	20,000	20,000
Other disclosed reserves	(2,119)	(2,119)
Other intangibles	(11,136)	-
Retained earnings	52,606	52,884
Perpetual Bonds	72,553	72,553
Less allocated to Subsidiary	-	(107,144)
Tier 1 Capital	**409,548**	**313,818**
Eligible expected credit loss on loans & advances and financing to customers	25,209	18,053
Investment revaluation reserve (45% only)	25	25
Tier 2 Capital	**25,234**	**18,078**
Total Capital	**434,782**	**331,896**

Tier 1 Capital

The Bank's authorised share capital is RO 200,000,000 and issued share capital comprises 1,669,410,000 fully paid shares of RO 0.100 each. In accordance with Article 132 of the Omani Commercial Companies Law, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

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

Additional Tier 1 Capital

a. On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.
b. Additionally, on 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

B. CAPITAL STRUCTURE (continued)

The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The Bond under note (a) has First Call Date on 29 January 2022 and bond under note (b) has First Call date on 17 October 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

Tier 2 Capital

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

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

C. CAPITAL ADEQUACY

Qualitative disclosures

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

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

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

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

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

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

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

C. CAPITAL ADEQUACY (continued)

Quantitative disclosure

Table-1 : Position of Risk weighted Assets and detail of Capital Adequacy is presented as under

2020 Consolidated

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	3,412,206	3,293,116	2,402,532
2	Off -Balance sheet Item	444,313	212,644	193,456
3	Derivatives	5,731	5,731	4,041
	Assets for Operations risk			201,908
	Assets in Trading book			18,200
4	**Total**	**3,862,250**	**3,511,491**	**2,820,137**
5	Tier 1 Capital			409,548
6	Tier 2 Capital			25,234
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**434,782**
8.1	Capital requirement for credit risk			344,504
8.2	Capital requirement for market risk			2,412
8.3	Capital requirement for operational risk			26,753
9	**Total required capital**			**373,669**
10	**Tier 1 Ratio**			**14.52%**
11	**Total Capital Ratio**			**15.42%**

2020 Parent Company

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,521,047	2,419,647	1,827,580
2	Off -Balance sheet Item	402,692	181,340	165,394
3	Derivatives	5,731	5,731	4,041
	Assets for Operations risk			165,275
	Assets in Trading book			13,075
4	**Total**	**2,929,470**	**2,606,718**	**2,175,365**
5	Tier 1 Capital			313,818
6	Tier 2 Capital			18,078
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**331,896**
8.1	Capital requirement for credit risk			244,634
8.2	Capital requirement for market risk			1,602
8.3	Capital requirement for operational risk			20,246
9	**Total required capital**			**266,482**
10	**Tier 1 Ratio**			**14.43%**
11	**Total Capital Ratio**			**15.26%**

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

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

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1st January 2018.

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

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

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Credit Risk Management and Control

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

(c) Credit-related commitments

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

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

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

Measurement of ECL

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

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

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

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

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

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

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Sl.No	Type of credit exposure	Average Gross Exposure			Total Gross Exposure as at		
		2020 Consolidated	2020 Parent Company	2019 Parent Company	2020 Consolidated	2020 Parent Company	2019 Parent Company
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	165,261	151,797	149,255	153,577	139,265	135,634
2	Personal Loans	1,038,390	720,003	766,870	1,042,859	722,479	762,327
3	Loans against Trust Receipts	97,996	97,996	111,671	92,506	92,506	92,113
4	Other Loans	1,312,511	924,247	912,819	1,397,158	993,238	1,003,786
5	Bills Purchased Discounted	64,013	64,013	77,044	53,572	53,572	66,030
	Total	**2,678,171**	**1,958,056**	**2,017,659**	**2,739,672**	**2,001,060**	**2,059,890**

iii. Geographic distribution of exposures

Table-3

2020 Consolidated

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	153,577	-	-	-	-	-	153,577
2	Personal Loans	1,042,859	-	-	-	-	-	1,042,859
3	Loans against Trust Receipts	92,506	-	-	-	-	-	92,506
4	Other Loans	1,397,158	-	-	-	-	-	1,397,158
5	Bills Purchased/Discounted	53,572	-	-	-	-	-	53,572
	Total	**2,739,672**	**-**	**-**	**-**	**-**	**-**	**2,739,672**

2020 Parent company

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	139,265	-	-	-	-	-	139,265
2	Personal Loans	722,479	-	-	-	-	-	722,479
3	Loans against Trust Receipts	92,506	-	-	-	-	-	92,506
4	Other Loans	993,238	-	-	-	-	-	993,238
5	Bills Purchased/Discounted	53,572	-	-	-	-	-	53,572
	Total	**2,001,060**	**-**	**-**	**-**	**-**	**-**	**2,001,060**

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

iv. Industry or counterparty type distribution of exposures

Table-4
2020 Consolidated

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	6,843	93,174	615	-	100,632	29,916
2	Export Trade	479	35	-	-	514	45,857
3	Wholesale & Retail Trade	13,002	110,999	780	-	124,781	14,901
4	Mining & Quarrying	19,829	157,937	464	-	178,230	2,135
5	Construction	39,522	244,795	43,286	-	327,603	34,335
6	Manufacturing	19,732	236,734	3,169	-	259,635	4,621
7	Electricity, gas & water	922	53,694	2,350	-	56,966	226,983
8	Transport & communication	3,366	111,603	143	-	115,112	553
9	Financial Institutions	2,144	78,892	-	-	81,036	-
10	Services	18,919	254,244	1,330	-	274,493	65,231
11	Personal Loans	-	1,042,859	-	-	1,042,859	9,974
12	Agriculture & Allied Activites	907	12,315	621	-	13,843	8,074
13	Government	-	-	-	-	-	23,505
14	Non-Resident Lending	-	3,387	-	-	3,387	-
15	All Others	27,912	131,855	814	-	160,581	4,593
16	**Total (1 to 15)**	**153,577**	**2,532,523**	**53,572**	**-**	**2,739,672**	**470,678**

2020 Parent Company

Sl. No		Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	5,444	74,763	615	-	80,822	27,845
2	Export Trade	479	35	-	-	514	45,790
3	Wholesale & Retail Trade	9,889	83,311	780	-	93,980	13,162
4	Mining & Quarrying	19,729	122,821	464	-	143,014	987
5	Construction	38,007	145,547	43,286	-	226,840	19,743
6	Manufacturing	18,578	158,992	3,169	-	180,739	2,303
7	Electricity, gas & water	672	46,411	2,350	-	49,433	223,760
8	Transport & communication	1,654	104,024	143	-	105,821	-
9	Financial Institutions	2,144	78,892	-	-	81,036	-
10	Services	15,917	129,262	1,330	-	146,509	49,359
11	Personal Loans	-	722,479	-	-	722,479	-
12	Agriculture & Allied Activites	907	6,264	621	-	7,792	-
13	Government	-	-	-	-	-	19,743
14	Non-Resident Lending	-	1,500	-	-	1,500	-
15	All Others	25,845	133,922	814	-	160,581	-
16	**Total (1 to 15)**	**139,265**	**1,808,223**	**53,572**	**-**	**2,001,060**	**402,692**

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

v. Residual contractual maturity of credit exposure

Table-5

2020 Consolidated

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	12,286	175,664	23,603	-	211,553	98,696
2	1-3 months	12,286	252,711	28,286	-	293,283	239,837
3	3-6 months	12,286	107,934	656	-	120,876	43,873
4	6-9 months	12,286	56,859	-	-	69,145	29,035
5	9-12 months	12,286	73,119	1,027	-	86,432	32,410
6	1-3 years	30,715	398,184	-	-	428,899	22,906
7	3-5 years	30,715	329,104	-	-	359,819	3,818
8	Over 5 years	30,717	1,138,948	-	-	1,169,665	103
9	**Total**	**153,577**	**2,532,523**	**53,572**	**-**	**2,739,672**	**470,678**

2020 Parent Company

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	11,141	144,413	23,603	-	179,157	89,914
2	1-3 months	11,141	216,406	28,286	-	255,833	226,587
3	3-6 months	11,141	65,078	656	-	76,875	25,497
4	6-9 months	11,141	32,207	-	-	43,348	18,071
5	9-12 months	11,141	40,906	1,027	-	53,074	20,383
6	1-3 years	27,853	240,380	-	-	268,233	18,319
7	3-5 years	27,853	209,676	-	-	237,529	3,818
8	Over 5 years	27,854	859,157	-	-	887,011	103
9	**Total**	**139,265**	**1,808,223**	**53,572**	**-**	**2,001,060**	**402,692**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2008

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

vi. Loans and provisions by major industry or counterparty type

Table-6

2020 Consolidated

SI. NO	Economic Sector	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	98,894	20,973	1,692	9,379	5,188	38
2	Export Trade	514	-	1	-	-	-
3	Wholesale & retail trade	125,270	6,445	1,721	4,706	11	-
4	Mining & quarrying	178,265	709	2,641	502	-	-
5	Construction	327,645	15,287	5,654	8,853	3,784	-
6	Manufacturing	260,266	15,959	4,834	6,175	1,087	-
7	Electricity ,gas & water	56,972	-	426	-	-	-
8	Transport & communication	116,891	539	514	290	82	-
9	Financial Institutions	84,501	70	737	40	3	-
10	Services	277,342	13,953	6,555	9,002	295	-
11	Personal Loans	1,017,346	21,350	4,327	10,080	4,334	673
12	Agriculture & Allied Activities	13,854	407	211	158	76	-
13	Government	-	-	4	-	-	-
14	Non-Resident Lending	3,387	1,887	-	1,887	-	-
15	All Others	178,525	25,432	10,242	14,087	298	278
16	**Total**	**2,739,672**	**123,011**	**39,559**	**65,159**	**15,158**	**989**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

2020 Parent Company

SI. NO	Economic Sector	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	80,822	20,973	614	9,379	6,868	38
2	Export Trade	514	-	1	-	-	
3	Wholesale & retail trade	93,980	158	1,612	59	11	
4	Mining & quarrying	143,014	-	2,386	-	-	
5	Construction	226,840	12,004	3,252	8,172	3,784	
6	Manufacturing	180,739	11,421	2,489	1,996	1,087	
7	Electricity ,gas & water	49,433	-	333	-	-	
8	Transport & communication	105,821	433	401	217	82	
9	Financial Institutions	81,036	70	318	40	3	
10	Services	146,509	8,212	3,726	4,582	295	
11	Personal Loans	722,479	18,222	3,212	8,803	4,334	673
12	Agriculture & Allied Activities	7,792	407	195	158	76	
13	Government	-	-	4	-	-	
14	Non-Resident Lending	1,500	-	-	-	-	
15	All Others	160,581	25,251	8,574	11,767	298	278
16	**Total**	**2,001,060**	**97,151**	**27,117**	**45,173**	**16,838**	**989**

* Stage 3 ECL provided during the year does not include net recovery / release of RO 5.6 million.

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

vii. Geographic distribution of impaired loans

Table-7

2020 Consolidated

SI. No	Countries	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Oman	2,739,672	123,011	39,559	65,159	15,158	989
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**2,739,672**	**123,011**	**39,559**	**65,159**	**15,158**	**989**

2020 Parent country

SI. No	Countries	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Oman	2,001,060	97,151	27,117	45,173	16,838	989
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**2,001,060**	**97,151**	**27,117**	**45,173**	**16,838**	**989**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

viii. Movement in gross loans

Table-8

2020 Consolidated

Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,552,122	433,835	73,933	**2,059,890**
2	Migration /changes(+/-)	55,542	(63,966)	8,424	**-**
2a	Acquisition of Alizz	468,136	82,429	19,750	**570,315**
3	New Loans	1,278,188	188,266	24,631	**1,491,085**
4	Recovery of Loans	(1,345,490)	(32,383)	(2,756)	**(1,380,629)**
5	Loans written off	(17)	(1)	(971)	**(989)**
6	Closing Balance	2,008,481	608,180	123,011	**2,739,672**
7	Expected credit loss held	10,090	29,372	64,755	**104,217**

2020 Parent Company

Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,552,122	433,835	73,933	**2,059,890**
2	Migration /changes(+/-)	72,835	(81,109)	8,274	**-**
2a	Transfer of Al Yusr	(120,925)	(16,299)	(5,960)	**(143,184)**
3	New Loans	1,252,962	188,266	24,631	**1,465,859**
4	Recovery of Loans	(1,345,377)	(32,383)	(2,756)	**(1,380,516)**
5	Loans written off	(17)	(1)	(971)	**(989)**
6	Closing Balance	1,411,600	492,309	97,151	**2,001,060**
7	Expected credit loss held	7,373	19,648	45,173	**72,194**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures
The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals and the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage, which meet the conditions of CBO, for which risk weight assigned is 35%.

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH (continued)

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:
Table-9

2020 Consolidated

Sl. No	Risk bucket	0%	20%	35%	50%	75%	100%	150%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	417,447	-	-	-	-	-	-	417,447
2	Banks(Rated)	-	63,394	-	59,156	-	74,837	-	197,387
3	Corporate	-	-	-	-	-	1,269,711	-	1,269,711
4	Retail	-	-	-	-	20,090	425,847	-	445,937
5	Claims secured by residential property	-	-	492,624	-	-	61,722	-	554,346
6	Claims secured by commercial property	-	-	-	-	-	326,145	-	326,145
7	Past due loans	-	-	-	-	-	59,283	-	59,283
8	Other assets	78,487	-	-	-	-	131,445	-	209,932
9	Un-drawn exposure	-	-	4,987	-	-	26,316	-	31,303
	Total	**495,934**	**63,394**	**497,611**	**59,156**	**20,090**	**2,375,306**	**-**	**3,511,491**

2020 Parent Company

Sl. No	Risk bucket	0%	20%	35%	50%	75%	100%	150%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	333,265	-	-	-	-	-	-	333,265
2	Banks(Rated)	-	63,353	-	37,435	-	70,465	-	171,253
3	Corporate	-	-	-	-	-	877,674	-	877,674
4	Retail	-	-	-	-	20,090	370,315	-	390,405
5	Claims secured by residential property	-	-	252,439	-	-	61,722	-	314,161
6	Claims secured by commercial property	-	-	-	-	-	326,145	-	326,145
7	Past due loans	-	-	-	-	-	51,112	-	51,112
8	Other assets	31,165	-	-	-	-	111,538	-	142,703
9	Un-drawn exposure	-	-	-	-	-	-	-	-
	Total	**364,430**	**63,353**	**252,439**	**37,435**	**20,090**	**1,868,971**	**-**	**2,606,718**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

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

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

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

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Treasury Division of the Bank. The Bank does not hold trading position in equities. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

Capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

Quantitative disclosure

The Bank's profits at 31 December 2020 may decrease by 3.4% (2019 – 2.5%) due to decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
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H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

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

Quantitative disclosure

The EAR at 31 December 2020 is 2.6% (2019 – 2.8%).

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

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2020 Consolidated

	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	178,126	220,975
Due from banks	2.25	32,903	-	-	-	-	39,879	72,782
Loans and advances	5.58	1,125,212	126,175	164,630	1,196,621	22,817	-	2,635,455
Investment- FVTPL & FVOCI		-	-	-	42,251	-	4,792	47,043
Amortized Cost	5.15	2,378	-	-	88,583	102,214	-	193,175
Goodwill		-	-	-	-	-	6,505	6,505
Other assets		44,017	-	-	-	-	33,486	77,503
Property and equipment		-	-	-	-	-	46,605	46,605
Total assets		**1,246,859**	**126,175**	**164,630**	**1,327,455**	**125,531**	**309,393**	**3,300,043**
Liabilities								
Due to banks	1.78	8,767	-	-	-	-	5,654	14,421
Deposits from customers	3.16	583,912	527,766	778,866	286,301	-	578,465	2,755,310
Other liabilities		7,174	-	-	-	-	67,054	74,228
Subordinated debt	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,507	4,507
Total liabilities		**599,853**	**547,766**	**778,866**	**286,301**	**-**	**655,680**	**2,868,466**
Total interest sensitivity gap		**647,006**	**(421,591)**	**(614,236)**	**1,041,154**	**125,531**	**(346,287)**	**431,577**

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H. INTEREST RATE RISK IN BANKING BOOK (continued)

2020 Parent Company

	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	130,803	173,652
Due from banks	2.41	32,904	-	-	-	-	38,091	70,995
Loans and advances	5.55	719,454	45,682	15,891	1,146,957	882	-	1,928,866
Investment- FVTPL & FVOCI		-	-	-	-	-	4,792	4,792
Investments in subsidiary		-	-	-	-	107,144	-	107,144
Amortized Cost	5.36	2,378	-	-	88,583	80,947	-	171,908
Other assets		44,300	-	-	-	-	10,987	55,287
Property and equipment		-	-	-	-	-	42,479	42,479
Total assets		**841,385**	**45,682**	**15,891**	**1,235,540**	**189,473**	**227,152**	**2,555,123**
Liabilities								
Due to banks	1.75	4,917	-	-	-	-	5,654	10,571
Deposits from customers	2.31	338,912	504,027	502,619	151,071	-	534,133	2,030,762
Other liabilities		7,174	-	-	-	-	50,523	57,697
Subordinated debt	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,507	4,507
Total liabilities		**351,003**	**524,027**	**502,619**	**151,071**	**-**	**594,817**	**2,123,537**
Total interest sensitivity gap		**490,382**	**(478,345)**	**(486,728)**	**1,084,469**	**189,473**	**(367,665)**	**431,586**

I. LIQUIDITY RISK

Qualitative Disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

2020 Consolidated

	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	181,418	12,126	193,544	12,447	14,984	220,975
Due from banks	59,782	13,000	72,782	-	-	72,782
Loans and advances	516,954	263,185	780,139	778,421	1,076,895	2,635,455
Investment securities	49,052	-	49,052	96,481	94,685	240,218
Goodwill	-	-	-	-	6,505	6,505
Other assets	55,225	22,253	77,478	-	25	77,503
Property and equipment	-	-	-	-	46,605	46,605
Total assets	**862,431**	**310,564**	**1,172,995**	**887,349**	**1,239,699**	**3,300,043**
Liabilities						
Due to banks	14,421	-	14,421	-	-	14,421
Deposits from customers	383,484	752,188	1,135,672	849,320	770,318	2,755,310
Other liabilities	41,814	9,953	51,767	22,461	-	74,228
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	4,099	-	4,099	408	-	4,507
Total liabilities	**443,818**	**782,141**	**1,225,959**	**872,189**	**770,318**	**2,868,466**
Net assets (Total equity)	**418,613**	**(471,577)**	**(52,964)**	**15,160**	**469,381**	**431,577**

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I. LIQUIDITY RISK (continued)

2020 Parent Company

	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	134,620	12,126	146,746	12,447	14,459	173,652
Due from banks	57,995	13,000	70,995	-	-	70,995
Loans and advances	435,086	161,584	596,670	505,761	826,435	1,928,866
Investment securities	6,806	-	6,806	75,209	94,685	176,700
Investments in subsidiary	-	-	-	-	107,144	107,144
Other assets	55,016	271	55,287	-	-	55,287
Property and equipment	-	-	-	-	42,479	42,479
Total assets	**689,523**	**186,981**	**876,504**	**593,417**	**1,085,202**	**2,555,123**
Liabilities						
Due to banks	10,571	-	10,571	-	-	10,571
Deposits from customers	302,257	543,938	846,195	558,360	626,207	2,030,762
Other liabilities	41,814	10,236	52,050	5,647	-	57,697
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	4,099	-	4,099	408	-	4,507
Total liabilities	**358,741**	**574,174**	**932,915**	**564,415**	**626,207**	**2,123,537**
Net assets (Total equity)	**330,782**	**(387,193)**	**(56,411)**	**29,002**	**458,995**	**431,586**

Liquidity Coverage Ratio (LCR)
The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. LCR measures the stock of High Quality Liquid Assets (HQLA) against short-term obligations (30 days). The Bank always maintains its ratio well above the regulatory requirement. The LCR of the Bank is 148% as at 31 December 2020 (Parent company 158%).

Net Stable Funding Ratio (NSFR)
NSFR regulation seeks that the Bank diversify its funding sources and reduce their dependency on short-term wholesale markets. The ratio compares the stock of Stable Funding against Required Funding with a minimum ratio of 100% as per the regulatory guidance. The Bank maintains a strong NSFR ratio to avoid any funding mis-match. The NSFR of the Bank is 116% as at 31 December 2020 (Parent Company 120%).

I. LIQUIDITY RISK (continued)

The detailed LCR and NSFR disclosure are given below:

LCR Consolidated

(RO '000)

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		451,414
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	706,881	48,673
3	Stable deposits	369,432	14,928
4	Less stable deposits	337,450	33,745
5	Unsecured wholesale funding, of which:	844,347	359,040
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	814,272	328,965
7	Non-operational deposits (all counterparties)	30,075	30,075
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	68,853	33,382
11	Outflows related to derivative exposures and other collateral	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	68,853	33,382
14	Other contractual funding obligations	23,850	23,850
15	Other contingent funding obligations	438,222	21,911
16	**TOTAL CASH OUTFLOWS**		**486,855**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	210,809	105,404
19	Other cash inflows	56,354	76,354
20	**TOTAL CASH INFLOWS**	**267,163**	**181,758**
			Total Adjusted Value
21	**TOTAL HQLA**		**451,414**
22	**TOTAL NET CASH OUTFLOWS**		**305,097**
23	**LIQUIDITY COVERAGE RATIO (%)**		**148**

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I. LIQUIDITY RISK (continued)

LCR Parent Company

(RO '000)

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		345,435
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	496,678	36,572
3	Stable deposits	191,714	6,075
4	Less stable deposits	304,964	30,496
5	Unsecured wholesale funding, of which:	642,061	277,300
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	611,986	247,225
7	Non-operational deposits (all counterparties)	30,075	30,075
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	34,145	30,414
11	Outflows related to derivative exposures and other collateral	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	34,145	30,414
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	402,692	20,135
16	**TOTAL CASH OUTFLOWS**		**364,421**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	179,156	89,578
19	Other cash inflows	56,354	56,354
20	**TOTAL CASH INFLOWS**	**235,510**	**145,932**
			Total Adjusted Value
21	**TOTAL HQLA**		**345,435**
22	**TOTAL NET CASH OUTFLOWS**		**218,489**
23	**LIQUIDITY COVERAGE RATIO (%)**		**158**

I. LIQUIDITY RISK (continued)

NSFR Consolidated

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	ASF Item	Unweighted value by residual maturity (RO '000)				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	424,707	-	-	-	424,707
2	*Regulatory capital*	424,707	-	-	-	424,707
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers	-	-	-	784,776	715,976
	business customers:					
5	*Stable deposits*				193,554	183,876
6	*Less stable deposits*				591,222	532,100
7	Wholesale funding:	715,597	182,681	82,206	-	766,278
8	*Operational deposits*	-	8,223			4,112
9	*Other wholesale funding*	715,597	174,458	82,206		762,166
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				501,318	501,318
14	**Total ASF**					**2,408,279**
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes					20,044
17	Performing loans and securities:	426,743	471,742	74,131	1,199,952	1,019,959
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	426,743	471,742	74,131	-	-
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which				1,199,952	1,019,959
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				492,612	320,198
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	230,964	38,867		-	698,483
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	230,964	38,867	1,572		698,483
32	Off-balance sheet items					23,854
33	**TOTAL RSF**					**2,082,537**
34	**NET STABLE FUNDING RATIO (%)**					**116**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020

	ASF Item	Unweighted value by residual maturity (RO '000)				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	321,508	-	-	-	321,508
2	*Regulatory capital*	321,508	-	-	-	321,508
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers	-	-	-	546,236	501,290
	business customers:					
5	*Stable deposits*				193,554	183,876
6	*Less stable deposits*				352,682	317,414
7	Wholesale funding:	370,337	179,381	82,206	-	591,998
8	*Operational deposits*	-	4,923			2,462
9	*Other wholesale funding*	370,337	174,458	82,206		589,536
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				363,869	363,869
14	**Total ASF**					**1,778,665**
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes					19,045
17	Performing loans and securities:	326,158	471,742	74,131	830,995	706,346
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	326,158	471,742	74,131	-	-
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which				830,995	706,346
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				252,439	164,085
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	171,782	38,867		-	566,778
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	171,782	38,867	1,572		566,778
32	Off-balance sheet items					20,342
33	**TOTAL RSF**					**1,476,597**
34	**NET STABLE FUNDING RATIO (%)**					**120**

I. LIQUIDITY RISK (continued)

Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the Consolidated and Parent entity is as follows:

Leverage Ratio Consolidated

Oman Arab Bank SAOG - Consolidated

Basel III leverage ratio framework and disclosure requirements - Reports for year end 2020

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	Total consolidated assets as per published financial statements	3,300,043
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	149,565
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	323,735
7	Other adjustments	-
8	**Leverage ratio exposure**	3,773,343

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,300,043
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	3,300,043
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	149,565
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**149,565**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	470,679
18	(Adjustments for conversion to credit equivalent amounts)	(146,944)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**323,735**
	Capital and total exposures	
20	**Tier 1 capital**	409,548
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	3,773,343
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	10.9

I. LIQUIDITY RISK (continued)

Leverage Ratio Parent Company

Oman Arab Bank SAOG - Parent Company

Basel III leverage ratio framework and disclosure requirements - Reports for year ended 2020

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	Total consolidated assets as per published financial statements	2,555,123
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	149,565
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	221,755
7	Other adjustments	-
8	**Leverage ratio exposure**	2,926,443

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,555,123
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,555,123
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	149,565
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**149,565**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	402,692
18	(Adjustments for conversion to credit equivalent amounts)	(180,937)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**221,755**
	Capital and total exposures	
20	**Tier 1 capital**	313,818
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	2,926,443
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	10.7

J. OPERATIONAL RISK

Qualitative Disclosures

Basel Committee on Banking Supervision has defined operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

The Bank is in the process of setting up the systems for collecting the data relating to operational risk. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

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

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 202 Million at 31 December 2020 (Parent Company: 2020 RO 165 million).

K. COMPOSITION OF CAPITAL DISCLOSURE

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank’s Statement of Financial Position with the regulatory capital elements is provided as follows using the three step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

RECONCILIATION	Financial Position as in published financial statements consolidated As at Dec-31-2020	Under regulatory scope of consolidation - consolidated As at Dec-31-2020	Financial Position as in published financial statements - Parent As at Dec-31-2020	Under regulatory scope of consolidation - Parent As at Dec-31-2020
Assets	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Cash and balances with Central Bank of Oman	220,975	220,975	173,652	173,652
Due from banks	72,782	72,782	70,995	70,995
Loans and advances	2,635,455	2,635,455	1,928,866	1,928,866
Investments in securities	240,218	240,218	176,700	176,700
Property and equipment	46,605	46,605	42,479	42,479
Goodwill	6,505	6,505		
Investments in subsidiary	-	-	107,144	107,144
Other assets	77,503	77,503	55,287	55,287
Total assets	3,300,043	3,300,043	2,555,123	2,555,123
Liabilities				
Due to banks	14,421	14,421	10,571	10,571
Customer deposits	2,755,310	2,755,310	2,030,762	2,030,762
Current and deferred tax liabilities	-	-	-	-
Other liabilities	74,228	74,228	57,697	57,697
Subordinated bonds	20,000	20,000	20,000	20,000
Taxation	4,507	4,507	4,507	4,507
Total liabilities	2,868,466	2,868,466	2,123,537	2,123,537
Shareholders' Equity				
Paid-up share capital	166,941	166,941	166,941	166,941
Share Premium	36,565	36,565	36,565	36,565
Special Reserve	3,837	3,837	3,837	3,837
Legal reserve	46,178	46,178	46,178	46,178
General reserve	25,560	25,560	25,560	25,560
Retained earnings	52,606	52,606	52,884	52,884
Cumulative changes in fair value of investments	(1,793)	(1,793)	(2,062)	(2,062)
Impairment reserve	9,130	9,130	9,130	9,130
Subordinated debt reserve	20,000	20,000	20,000	20,000
Total shareholders' equity	359,024	359,024	359,033	359,033
Perpetual Tier 1 Capital Bonds	**72,553**	**72,553**	**72,553**	**72,553**
Total liability and shareholders' funds	**3,300,043**	**3,300,043**	**2,555,123**	**2,555,123**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
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RECONCILIATION	Financial Position as in published financial statements consolidated	Under regulatory scope of consolidation - consolidated	Financial Position as in published financial statements - Parent	Under regulatory scope of consolidation - Parent
	As at Dec-31-2020	As at Dec-31-2020	As at Dec-31-2020	As at Dec-31-2020
	RO '000	RO '000	RO '000	RO '000
Assets				
Cash and balances with CBO	**220,975**	**220,975**	**173,652**	173,652
Balance with banks and money at call and short notice	**72,782**	**72,782**	**70,995**	70,995
Investments in Subsidiary	**-**	**-**	**107,144**	-
Investments :	**240,218**	**240,218**	**176,700**	**176,700**
Of which :				
Held to collect	193,175	193,175	171,908	171,908
FVOCI	46,640	46,640	4,389	4,389
FVPL	403	403	403	403
Held for Trading			-	-
Goodwill	**6,505**	**-**	**-**	-
Loans and advances	**2,635,455**	**2,651,600**	**1,928,866**	**1,937,834**
Of which :				
Loans and advances to domestic banks	-	-	-	-
Loans and advances to non-resident banks	-	-	-	-
Loans and advances to domestic customers	2,001,060	1,918,162	2,001,060	1,918,162
Loans and advances to non-resident Customers for domestic operations	-	-	-	-
Loans and advances to non-resident Customers for operations abroad	-	-	-	-
Loans and advances to SMEs	-	82,898	-	82,898
Financing from Islamic banking window	738,612	738,612	-	-
Allowances for the credit losses	(104,217)	(88,072)	(72,194)	(63,226)
Of which :				
Stage 3	(62,863)	(62,863)	(45,173)	(45,173)
Stage 1 & Stage 2	(41,354)	(25,209)	(27,021)	(18,053)
Fixed assets	**46,605**	**46,605**	**42,479**	**42,479**
Other assets	**77,503**	**77,503**	**55,287**	**55,287**
Total Assets	**3,300,043**	**3,309,683**	**2,555,123**	**2,456,947**

RECONCILIATION	Financial Position as in published financial statements consolidated	Under regulatory scope of consolidation - consolidated	Financial Position as in published financial statements - Parent	Under regulatory scope of consolidation - Parent
Capital & Liabilities				
Paid-up Capital	**166,941**	**166,941**	**166,941**	**166,941**
Of which:				
Amount eligible for CET1	166,941	166,941	166,941	166,941
Amount eligible for AT1	72,553	72,553	72,553	72,553
Reserves & Surplus	**192,083**	**181,190**	**192,092**	**181,468**
Of which:				
Legal reserve	46,178	46,178	46,178	46,178
General reserve	25,560	25,560	25,560	25,560
Retained earnings	52,606	52,606	52,884	52,884
Proposed dividends				
Cumulative changes in fair value of investments	(1,793)	(2,119)	(2,062)	(2,119)
Of which:				
Amount eligible for Tier 2 capital		57	-	57
Share premium	36,565	36,565	36,565	36,565
Impairment reserve	9,130		9,130	
Subordinated debt reserve	20,000	20,000	20,000	20,000
Special reserve	3,837	2,400	3,837	2,400
Total Capital	**431,577**	**420,684**	**431,586**	**420,962**

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RECONCILIATION	Financial Position as in published financial statements consolidated	Under regulatory scope of consolidation - consolidated	Financial Position as in published financial statements - Parent	Under regulatory scope of consolidation - Parent
Deposits	**2,755,310**	**2,755,310**	**2,030,762**	**2,030,762**
Of which:				
Deposits from banks				
Customer deposits	2,030,762	2,030,762	2,030,762	2,030,762
Deposits of Islamic Banking window	724,548	724,548	-	-
Borrowings	**34,421**	**34,421**	**30,571**	**30,571**
Of which:				
From CBO	-	-	-	-
From banks	14,421	14,421	10,571	10,571
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds,Debentures and sukuks	20,000	20,000	20,000	20,000
Of which:				
Directly issued qualifying Tier 2 instruments	20,000	-	20,000	-
Amount de-recognised from Tier 2 capital	-	20,000	-	20,000
Other liabilities & provisions	**78,735**	**78,735**	**62,204**	**62,204**
Total Capital, Other liabilities & provisions	**3,300,043**	**3,289,150**	**2,555,123**	**2,544,499**

	Common Equity Tier 1 capital: instruments and reserves	**Under regulatory scope of consolidation - consolidated**	**Under regulatory scope of consolidation - Parent**
1	Directly issued qualifying common share capital	166,941	166,941
2	Retained earnings	52,606	52,884
3	Accumulated other comprehensive income (and other reserves)	130,703	130,703
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Total regulatory adjustments to Common equity Tier 1	(13,255)	(109,263)
7	**Common Equity Tier 1 capital (CET1)**	**336,995**	**241,265**
8	**Additional Tier 1 capital (AT1)**	**72,553**	72,553
9	**Tier 1 capital (T1 = CET1 + AT1)**	**409,548**	**313,818**
	Tier 2 capital: instruments and provisions		
#	Directly issued qualifying Tier 2 instruments		-
#	Eligible expected credit loss	25,209	18,053
#	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	25	25
#	**Tier 2 capital (T2)**	**25,234**	**18,078**

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Main features template for capital instruments

Bank has three types of capital instruments viz., Common Equity Shares, Additional Tier 1 Perpetual bonds and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

Main features of Common Shares	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005260
Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in CET-1 Capital
Post-transitional Basel III rules	Eligible for inclusion in CET-1 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 166.9 Million
Par value of instrument	OMR 0.1
Accounting classification	Shareholder's equity
Original date of issuance	Common shares have been announced many times. The change in position of common shares during the year has been provided in point 20 of notes to accounts.
Perpetual or dated	Perpetual
Original maturity date	-
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	No coupon
Coupon rate and any related index	-
Existence of a dividend stopper	Yes
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	Yes
If write-down, write-down trigger(s)	Non-viability event

If write-down, full or partial	Full
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully Subordinated (Subordinated debt are senior to ordinary shares)
Non-compliant transitioned features	-

Subordinated Loans

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

Main features of Subordinated Loans	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in Tier - 2 Capital
Post-transitional Basel III rules	Eligible for inclusion in Tier - 2 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	-
Par value of instrument	OMR 20 Million
Accounting classification	Subordinated Debt
Original date of issuance	30/11/2015
Perpetual or dated	Dated
Original maturity date	30/05/2021
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed coupon
Coupon rate and any related index	5.50%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-

Write-down feature	Yes
If write-down, write-down trigger(s)	Non-viability event
If write-down, full or partial	full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
Non-compliant transitioned features	-

Perpetual Bonds

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

	Main features of Perpetual Bonds	
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005344
3	Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 30 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	29/12/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 29/01/2022 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 29/01/2022, means each 29 June and 29 December in each year, starting on and including 29/01/2020
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.75%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-

22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

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

	Main features of Perpetual Bonds	
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000006805
3	Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 42.553 Million
9	Par value of instrument	OMR 42.553 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	17/10/2018
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 17/10/2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 17/10/2023, means each 17 April and 17 October in each year, starting on and including 17/10/2023

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	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.5%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

The following table shows the composition of capital under Basel III:

	Common Equity Tier 1 capital: instruments and reserves	**AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT Consolidated RO '000**	**AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT Parent Company RO '000**
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	166,941	166,941
2	Retained earnings	52,606	52,884
3	Accumulated other comprehensive income (and other reserves)	130,703	130,703
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**350,250**	**350,528**

Common Equity Tier 1 capital: regulatory adjustments

7	Prudential valuation adjustments	(2,119)	(2,119)
8	Goodwill (net of related tax liability)	(6,505)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(1,764)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(2,867)	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	(107,144)
20	Mortgage Servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-	-
28	Perpetual Bonds		

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
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29	**Total regulatory adjustments to Common equity Tier 1**	**(13,255)**	**(109,263)**
29	**Common Equity Tier 1 capital (CET1)**	**336,995**	**241,265**
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	72,553	72,553
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	**72,553**	**72,553**
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	**-**
44	**Additional Tier 1 capital (AT1)**	**72,553**	**72,553**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**409,548**	**313,818**

	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	25	25
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-
50	Subordinated term debt.	-	-
50	Eligible expected credit loss	25,209	18,053
51	**Tier 2 capital before regulatory adjustments**	**25,234**	**18,078**
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-	-
57	**Total regulatory adjustments to Tier 2 capital**	-	**-**
58	**Tier 2 capital (T2)**	**25,234**	**18,078**
59	**Total capital (TC = T1 + T2)**	**434,782**	**331,896**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	**2,820,137**	**2,175,365**
60	**Total risk weighted assets (60a+60b+60c)**	**2,820,137**	**2,175,365**
60a	*Of which: Credit risk weighted assets*	*2,600,029*	1,997,015

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
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60b	*Of which: Market risk weighted assets*	*18,200*	13,075
60c	*Of which: Operational risk weighted assets*	*201,908*	165,275
	Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.95%	11.09%
62	Tier 1 (as a percentage of risk weighted assets)	14.52%	14.43%
63	Total capital (as a percentage of risk weighted assets)	15.42%	15.26%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.250%	8.250%
65	*of which: capital conservation buffer requirement*	1.250%	1.250%
66	*of which: bank specific countercyclical buffer requirement*	*0%*	*0%*
67	*of which: D-SIB/G-SIB buffer requirement*	*0%*	*0%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.42%	4.26%
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.875%	12.875%
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-	-
73	Significant investments in the common stock of financials	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,867	-
	Applicable caps on the inclusion of provisions in Tier 2		
76	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to standard approach (prior to application of cap)	25,209	18,053
77	Cap on inclusion of Expected credit loss in Tier 2 under standardised approach	1.25%	1.25%
78	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of Expected credit loss in Tier 2 under internal ratings-based approach	-	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
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	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1* instruments *subject to phase out arrangements*	-	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	-

Rashad Al Musafir
Chief Executive Officer

Glossary

A

Additional Tier 1 capital ('AT1'): This capital consists of instruments issued by the Bank (e.g. Perpetual Bonds) and related share premiums that meet the criteria for inclusion in AT1 (and are not included in Common Equity Tier 1), and regulatory adjustments required in the calculation of AT1.

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

Arrears: Customers are said to be in arrears (or in a state of delinquency) when they are behind in fulfilling their obligations, with the result that an outstanding loan is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are described as delinquent.

B

Basel II: The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III: In December 2010, the Basel Committee issued 'Basel III rules: a global regulatory framework for more resilient banks and banking systems' and 'International framework for liquidity risk measurement, standards and monitoring'. Together these documents present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In June 2011, the Basel Committee issued a revision to the former document setting out the finalized capital treatment for counterparty credit risk in bilateral trades, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Basis point ('bps'): One hundredth of a per cent (0.01%), so 100 basis points is 1%. For example, this is used in quoting movements in interest rates or yields on securities.

C

Capital conservation buffer ('CCB'): A capital buffer prescribed by regulators under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Collectively assessed loan impairment provisions: Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant. This is to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commercial real estate loans: Includes office buildings to let, retail space, multifamily residential buildings (eg residential towers or mixed use towers covering residential and commercial), industrial or warehouse space, hotels etc. where the prospects of repayment and recovery on the exposure depend primarily upon the cash flows generated by the commercial mortgage.

Common equity tier 1 capital ('CET1'): The highest quality form of regulatory capital under Basel III that comprises common shares issued, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

Contingent liabilities: These include standby Letters of Credit (LCs), Financial Guarantees (LGs/FGs) to third parties, Commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value (the notional amount of the instrument). However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

CET1 ratio: A Basel III measure, of CET1 capital expressed as percentage of total risk weighted assets.

Contractual maturity: The date on which the final payment (principal or interest) of any financial instrument is due to be paid, at which point all the remaining outstanding principal and interest have been repaid.

Cost-to-income ratio: Represents the proportion of total operating expenses to total operating income.

Cost of risk: The ratio of net provisions to average net loans.

Countercyclical capital buffer: Regulatory capital of up to 2.5 per cent of risk weighted assets that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

Counterparty credit risk: The risk that a counterparty defaults before satisfying its obligations under a contract.

Coverage ratio: Represents the extent to which non-performing loans are covered by impairment allowances (Stage 3 ECL).

Credit institutions: An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk: Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending, trade finance and leasing business, but also from products such as guarantees, derivatives and debt securities.

Credit risk mitigation: A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits: Money deposited by all individuals and companies that are not credit institutions including securities sold under repurchase agreement (repo). Such funds are recorded as liabilities.

D

Debt securities: Financial assets on the Bank's balance sheet representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.

Debt securities in issue: Debt securities in issue are transferable certificates of indebtedness of the Bank to the bearer of the certificate. These are liabilities of the Bank.

Delinquency: A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks: All deposits received from domestic and foreign banks, excluding deposits or liabilities in the form of debt securities or for which transferable certificates have been issued.

Dividend per share: Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Domestic systemically Important Bank ('DSIB'): These are banks defined by the Central Bank of Oman as those banks whose failure or distress may lead to significant adverse impact on the entire banking sector, the financial system and/or the economy.

Due from Banks: These are mainly placements and current account balance receivables from local and foreign banks.

Due to Banks: These are mainly placements and current account balance payable to other banks.

E

Earnings per share (EPS): An EPS is a number (generally a smallest denomination of currency e.g. for Omani Rials, the Baisas) that denotes the ordinary equity shareholders' earning per unit.

Expected Credit Loss (ECL): With IFRS 9, the calculation of provisioning has changed significantly. ECL is similar to the erstwhile provision calculations on financial assets; however, the methodology is model driven and involves various complex parameters. The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposures: Credit exposures represent the amount lent to a customer, together with any undrawn commitment.

Exposure at default ('EAD'): The estimation of the extent to which the Bank may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions ('ECAI'): For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from approved rating agencies, known as ECAI; namely Moody's, Standard & Poor's, Fitch and Capital Intelligence.

F

Fair value adjustment: An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value through Other Comprehensive Income (FVOCI): A measurement category where the difference in the FV is booked under OCI up until derecognition of the Asset/Liability.

Fair Value through Profit or Loss (FVTPL): A measurement category where the difference in the FV is posted to income statement.

Fair Value reserve: A Fair Value reserve is created by transferring all the fair value adjustments on the financial instruments as required under various IFRSs.

Free funds: Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/ Non-funded exposure: Exposures where the notional amount of the transaction is funded or non-funded. Represents exposures where there is a commitment to provide future funding but funds have been released/not released.

G

General Reserve: A reserve maintained in order to meet any unforeseen contingencies. Transfer to this reserve is not mandatory and is at the discretion of the management to transfer an amount from current year's profits.

Guarantee: An undertaking by a party to pay a creditor should a debtor fail to do so.

H

High-quality liquid assets: Assets that are unencumbered, liquid in markets during a time of stress and, ideally, are central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III Rules require this ratio to be at least 100 per cent.

I

IFRS: The IFRSs are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

Impaired loans: Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans which, while impaired, are still performing.

Individually assessed loan impairment provisions: Also known as specific impairment provisions (Stage 3 ECL). Impairment is measured individually for assets that are individually significant to the Bank. Typically, Corporate customers are assessed individually and all other accounts that do not qualify form a basis for collective assessment.

Internal Capital Adequacy Assessment Process ('ICAAP'): The Bank's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

Investment grade: Represents a risk profile similar to a rating of BBB- or better, as defined by an external rating agency.

Interest rate risk ('IRR'): IRR arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

IFRIC: The IFRS Interpretation Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs or IASs.

J

Jaws: The rate of income growth less the rate of expense growth. Expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).

L

Lease liability: With the introduction of IFRS 16, the present value of future lease payments has resulted in creation of Lease liability, which is an 'On-Balance Sheet' item of liabilities.

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

Legal risk: The risk of financial loss, sanction and/or reputational damage resulting from contractual risk (the risk that the rights and/or obligations within a contractual relationship are defective); dispute risk (the risk due to an adverse dispute environment or the management of potential or actual disputes); legislative risk (the risk that the Bank fails to adhere to laws of the jurisdiction in which it operates); and non-contractual rights risk (the risk that the Bank's assets are not properly owned or are infringed by others or the infringement by the Bank of another party's rights).

Level 1 – quoted market price: Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – valuation technique using observable inputs: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Leverage ratio: A measure, prescribed by regulators under Basel III, which is the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Line of credit: Credit A Line of Credit or Revolving Line of Credit facility is a kind of facility received from a financial institution (generally a bank), that provides stand by loans. These facilities become 'On-Balance' visible upon draw down, until then these are 'Off-Balance Sheet' and carry only commission without any associated interest.

Liquidity and credit enhancements: Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through overcollateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.

Liquidity coverage ratio ('LCR'): The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. The LCR is still subject to an observation period and review to address any unintended consequences.

Liquidity risk: The risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Loans and advances: This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks: Amounts lent to credit institutions including securities bought under reverse repurchase agreement (repo).

Loans to individuals: Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays and other consumer uses.

Loan-to-value ratio: The loan-to-value ratio is a mathematical calculation that expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due: Loans on which repayments are overdue.

Loss given default ('LGD'): LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

Market risk: The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.

Medium term notes ('MTN's'): Issued by corporates across a range of maturities. Under MTN Programmes notes are offered on a regular and continuous basis to investors.

N

Net asset value per share: Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure: The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

Net interest income (NII): The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin (NIM): The margin is expressed as net interest income divided by average interest-earning assets.

Net stable funding ratio ('NSFR'): The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The NSFR is still subject to an observation period and review to address any unintended consequences.

Non-performing loans ('NPLs'): A nonperforming loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

• Renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or

• Renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.

Normalised net income: Profit attributable to ordinary shareholders as adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent and other infrequent and/or exceptional transactions that are significant or material in the context of the Bank's normal business earnings for the period.

O

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Over-the-counter ('OTC'): A bilateral transaction (e.g. derivative) that is not exchange traded and that is valued using valuation models.

P

Perpetual Tier 1 capital bonds: Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion at Call Dates or on any interest payment date thereafter subject to the prior consent of the regulatory authority. The bonds carry a fixed coupon rate payable in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation.

Pillar 1: The first Pillar of the three pillars of Basel II/Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

Pillar 2: Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3: Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Probability of default ('PD'): PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders: Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

R

Renegotiated loans: Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forborne loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.

Repo/Reverse repo: A repurchase agreement or repo is a short-term funding agreement which allows a borrower to sell a financial asset, such as asset backed securities or government bonds as collateral for cash. As part of the agreement, the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Reputational risk: The risk that illegal, unethical or inappropriate behavior by the Bank itself, members of staff or clients or representatives of the Bank will damage the reputation, leading, potentially, to a loss of business, fines or penalties.

Residential mortgage: A loan that is granted to a bank's customers which is secured by the collateral of residential property that is either self-occupied or is generating rental income wherein the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the residential mortgage. The residential property should be wholly mortgaged in favor of the bank.

Retail loans: Money lent to individuals rather than institutions. This includes both secured and unsecured loans such as mortgages and credit card balances.

Return on average equity: Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Return on risk-weighted assets: Operating profit (excluding civil monetary penalty, goodwill impairment and own credit) divided by average total risk-weighted assets.

Right of use assets (ROU): With the introduction of IFRS 16, the usability of leased asset has resulted in creation of ROUs. Right of use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities.

Risk appetite: The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

Risk-weighted assets ('RWA's'): A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the Supervisory Regulatory Authority.

S

Secured (fully and partially): A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Bank is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Segment: A Segment is a unit / line of business that contributes to majority or significant portion of assets, liabilities or revenues. Accordingly, the Bank has identified Retail Banking, Corporate Banking, Treasury, Head Office & Support and Islamic Banking as Segments.

Senior debt: Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Standardised approach: In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to a supervisory defined gross income.

Stressed value at risk: A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Structured entities ('SE's'): An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Structured finance/notes: A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated debts/bonds: A debt, which in the event of insolvency or liquidation of the issuer are subordinated to the claims other creditors.

Subordinated debt/bond reserve: The reserve, which is created by transferring an annual equal proportion subordinated debts, out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated loans which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated loans.

T

Tier 1 capital ('T1'): A component of regulatory capital, comprising CET1 and AT1.

Tier 1 capital ratio: Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital ('T2'): Tier 2 capital includes instruments issued by the Bank that meet the supervisory definition of T2, the related share premium resulting from such issue, certain loan loss provisions (ECL) less any supervisory deductions and adjustments.

Total eligible capital: Sum of T1 and T2 after regulatory adjustments.

V

Value-at-risk ('VaR'): A measure of the loss that might occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

W

Wholesale loans: Money lent to sovereign borrowers, banks, non-bank financial institutions and corporate entities.

Write-off: When a financial asset is written down or written off, a customer balance is partially or fully removed, respectively, from the balance sheet. Loans (and related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

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