بنك عُمان العربي
OMAN ARAB BANK

OMAN ARAB BANK SAOG

Report and financial statements
for the year ended 31 December 2020

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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)*

<table>
<tr><th>Description</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

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.

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- 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.

</td></tr>
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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.

KPMG
Ravikanth Petluri

15 March 2021

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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	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 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.

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**

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.

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 RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items 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 RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items 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**	**Gross Loans RO'000**
Loans and advances with collateral available	**850,533**	**133,756**	**47,495**	**1,031,784**
Loans and advances with guarantees available	**246,869**	**-**	**7,537**	**254,406**
Balance as at 31 December 2020	**1,097,402**	**133,756**	**55,032**	**1,286,190**
Percentage of exposure with collateral and guarantees	**47%**	**51%**	**45%**	**47%**

Parent Company	**Performing loans (neither past due nor impaired) RO'000**	**Loans past due and not impaired RO'000**	**Non performing loans RO'000**	**Gross Loans RO'000**
Loans and advances with collateral available	**436,180**	**56,724**	**26,225**	**519,129**
Loans and advances with guarantees available	**221,869**	**-**	**7,537**	**229,406**
Balance as at 31 December 2020	**658,049**	**56,724**	**33,762**	**748,535**
Percentage of exposure with collateral and guarantees	**39%**	**28%**	**35%**	**37%**
Balance as at 31 December 2019	746,930	254,106	31,017	1,032,053

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

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:

		Consolidated	
31 December 2020	**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**

		Parent Company	
31 December 2020	**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.

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 RO' 000**	**Contractual interest not recognised RO' 000**	**Total 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 RO' 000**	**Contractual interest not recognised RO' 000**	**Total 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 RO' 000	Contractual interest not recognised RO' 000	Total 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	Stage 1	813,349	-	334	(334)	813,349	813,015	-	-
CBO circular BM 977 and	Stage 2	304,159	-	163	(163)	304,159	303,996	-	-
related instructions	Stage 3	633	229	570	(341)	404	63	-	-
		1,118,141	**229**	**1,067**	**(838)**	**1,117,912**	**1,117,074**	**-**	**-**
	Stage 1	**2,817,538**	**25,291**	**10,187**	**15,104**	**2,792,248**	**2,807,351**	**-**	**-**
Total	**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	Stage 1	1,047,803	-	911	(911)	1,047,803	1,046,892	-	-
under CBO circular BM	Stage 2	273,624	-	134	(134)	273,624	273,490	-	-
977 and related instructions	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

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**

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

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)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	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**	**Stage 2**	**Stage 3**	**Total**
	RO 000	**RO 000**	**RO 000**	**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			**RO 000**
	As per CBO Norms	**As per IFRS 9**	**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%	

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

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

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

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

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	**Parent Company**	
	2020 RO’000	**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)**

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**

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	2019
	RO'000	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	**Parent Company**	
	2020	**2020**	2019
	RO'000	**RO'000**	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**

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

Dividend is not accounted for until it has been approved at the Annual General Meeting (AGM). The Board of Directors has proposed nil dividend for the year ended 31 December 2020 (2019- cash dividend of RO 14.81 million, which was approved by shareholders at the AGM).

The financial statements for the year ended 31 December 2020 do reflect dividend payment as an appropriation of retained earnings for the dividend relating to 2019 declared in 2020.

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

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	**Retail**	**Corporate**	**Islamic Banking**	**Total**
Consolidated	**RO'000**	**RO'000**	**RO'000**	**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	**Retail**	**Corporate**	**Islamic Banking**	**Total**
Parent Company	**RO'000**	**RO'000**	**RO'000**	**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**

	Retail	Corporate	Islamic Banking	Total
2019	RO'000	RO'000	RO'000	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	**Parent Company 2020**	2019
	RO'000	**RO'000**	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

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 1,253 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.

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**	**Others**	**Total**
	RO'000	**RO'000**	**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**	**Major shareholders**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**	**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	Others	Total
	RO'000	RO'000	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	Parent Company	
	2020	**2020**	2019
	RO'000	**RO'000**	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**	**Others**	**Total**
	RO'000	**RO'000**	**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**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**
Interest and commission income	**708**	**3,370**	**4,078**
Interest expense	**770**	**946**	**1,716**

31 December 2019	Major shareholders	Others	Total
	RO'000	RO'000	RO'000
Interest and commission income	272	2,895	3,167
Interest expense	339	718	1,057

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	2019
	RO'000	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	**Parent Company**	
	2020	**2020**	2019
	RO'000	**RO'000**	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

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 Notional principal amount	Consolidated 31-Dec-20 Risk-weighted exposure	Parent Company 31-Dec-20 Notional principal amount	Parent Company 31-Dec-20 Risk-weighted exposure	31-Dec-19 Notional principal amount	31-Dec-19 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**

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

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**

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.

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 2020	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total 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 2020	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total 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

42. Geographical distribution of assets and liabilities (continued)

2019	Sultanate of Oman	Other GCC countries	Europe	United States of 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.

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 four 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)**

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	Retail	Corporate	Treasury	Others	Islamic Banking	Total
2019	RO'000	RO'000	RO'000	RO'000	RO'000	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.