OMAN ARAB BANK SAOG

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

IN TERMS OF CENTRAL BANK OF OMAN CIRCULAR BM 1027 DATED 4 DECEMBER 2007 & BM 1114 DATED 17 NOVEMBER 2013

OMAN ARAB BANK SAOG

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A. SCOPE OF APPLICATION

Oman Arab Bank SAOG (the Bank or 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 became a listed Bank and the name was changed from Oman Arab Bank SAOC to Oman Arab Bank SAOG. The Bank has one subsidiary, Alizz Islamic Bank and accordingly, the information in the document pertains to the Bank and the Parent Company. The Bank was a subsidiary of Oman International Development and Investment Company SAOG up to 29 June 2020 and from 30 June 2020, the Bank is a subsidiary of Arab Bank PLC, an entity based in Jordan.

On 6 July 2020, the Bank transferred its Islamic Window (Al Yusr) to AIB. Hence, the Bank 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 Basel disclosures being prepared by the Bank after acquisition of the AIB and disposal of Al Yusr to the AIB. Consolidated Basel disclosures comprises of the results of the Bank for the year and AIB (subsidiary) from date of acquisition. Parent company disclosure comprises of the results of the Bank for the year and Al Yusr until 30 June 2020.

The Bank's objectives of capital management are:

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

The Bank complies with CBO's requirements for the capital adequacy as specified in the Circular provided for the implementation of the Basel II accord.

Basel II Accord consists of three mutually reinforcing Pillars - Minimum Capital Requirements (First Pillar), Supervisory Review Process (Second Pillar) and Market Discipline (Third Pillar). Under the First Pillar, the new framework offers three distinct options, for computing capital requirements for credit and operational risks, respectively. The approaches for credit risk (Standardized, Internal Ratings-Based –Foundation and Advanced) and operational risk (Basic Indicator, Standardized and Advanced measurement) are based on increasing risk sensitivity and allow banks to choose any of the approaches that are most appropriate to their risk management practices.

B. CAPITAL STRUCTURE

The Bank's Tier 1 and Tier 2 capital are as follows

	2020 **Consolidated** **RO '000**	2020 **Parent Company** **RO '000**
Paid up share capital	166,941	166,941
Share premium	36,565	36,565
Legal reserve	46,178	46,178
General reserve	25,560	25,560
Special reserve	2,400	2,400
Subordinated Debt reserve	20,000	20,000
Other disclosed reserves	(2,119)	(2,119)
Other intangibles	(11,136)	-
Retained earnings	52,606	52,884
Perpetual Bonds	72,553	72,553
Less allocated to Subsidiary	-	(107,144)
Tier 1 Capital	**409,548**	**313,818**
Eligible expected credit loss on loans & advances and financing to customers	25,209	18,053
Investment revaluation reserve (45% only)	25	25
Tier 2 Capital	**25,234**	**18,078**
Total Capital	**434,782**	**331,896**

Tier 1 Capital

The Bank's authorised share capital is RO 200,000,000 and issued share capital comprises 1,669,410,000 fully paid shares of RO 0.100 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

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

Additional Tier 1 Capital

a. On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.
b. Additionally, on 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

B. CAPITAL STRUCTURE (continued)

The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The Bond under note (a) has First Call Date on 29 January 2022 and bond under note (b) has First Call date on 17 October 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

Tier 2 Capital

Tier 2 Capital consists eligible Expected Credit Loss (ECL) on loans & advances and financing to customers as required by the CBO and cumulative fair value gains on eligible investments securities as allowed under the guidelines for Basel II by CBO.

The eligible ECL is made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

C. CAPITAL ADEQUACY

Qualitative disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

i. Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and
ii. Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

a. evaluate the level and trend of material risks and their effect on capital requirements;
b. evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;
c. determine that the Bank holds sufficient capital against various risks;
d. determine that the Bank meets its internal capital adequacy goals; and
e. assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

The Management is in the process of setting the policies and procedures to progressively move to the advanced approaches set out in Basel II for the capital measurement.

C. CAPITAL ADEQUACY (continued)

Quantitative disclosure

Table-1 : Position of Risk weighted Assets and detail of Capital Adequacy is presented as under

2020 Consolidated

Sl. No	Details	Gross Balance	Net Balance	Risk Weighted Assets
		(Book Value) RO'000	(Book Value) RO'000	RO'000
1	On -Balance sheet Item	3,412,206	3,293,116	2,402,532
2	Off -Balance sheet Item	444,313	212,644	193,456
3	Derivatives	5,731	5,731	4,041
	Assets for Operations risk			201,908
	Assets in Trading book			18,200
4	**Total**	**3,862,250**	**3,511,491**	**2,820,137**
5	Tier 1 Capital			409,548
6	Tier 2 Capital			25,234
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**434,782**
8.1	Capital requirement for credit risk			344,504
8.2	Capital requirement for market risk			2,412
8.3	Capital requirement for operational risk			26,753
9	**Total required capital**			**373,669**
10	**Tier 1 Ratio**			**14.52%**
11	**Total Capital Ratio**			**15.42%**

2020 Parent Company

Sl. No	Details	Gross Balance	Net Balance	Risk Weighted Assets
		(Book Value) RO'000	(Book Value) RO'000	RO'000
1	On -Balance sheet Item	2,521,047	2,419,647	1,827,580
2	Off -Balance sheet Item	402,692	181,340	165,394
3	Derivatives	5,731	5,731	4,041
	Assets for Operations risk			165,275
	Assets in Trading book			13,075
4	**Total**	**2,929,470**	**2,606,718**	**2,175,365**
5	Tier 1 Capital			313,818
6	Tier 2 Capital			18,078
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**331,896**
8.1	Capital requirement for credit risk			244,634
8.2	Capital requirement for market risk			1,602
8.3	Capital requirement for operational risk			20,246
9	**Total required capital**			**266,482**
10	**Tier 1 Ratio**			**14.43%**
11	**Total Capital Ratio**			**15.26%**

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman. Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management and credit review teams which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Risk Department while the Retail Banking Department manages the credit risk with predefined programs. The Risk Management Department reviews the credit risk independently and directly reports to the Compliance and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1st January 2018.

In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

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

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Credit Risk Management and Control

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

(c) Credit-related commitments

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

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

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments

Measurement of ECL

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

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

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

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Sl.No	Type of credit exposure	Average Gross Exposure			Total Gross Exposure as at		
		2020 Consolidated	2020 Parent Company	2019 Parent Company	2020 Consolidated	2020 Parent Company	2019 Parent Company
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	165,261	151,797	149,255	153,577	139,265	135,634
2	Personal Loans	1,038,390	720,003	766,870	1,042,859	722,479	762,327
3	Loans against Trust Receipts	97,996	97,996	111,671	92,506	92,506	92,113
4	Other Loans	1,312,511	924,247	912,819	1,397,158	993,238	1,003,786
5	Bills Purchased Discounted	64,013	64,013	77,044	53,572	53,572	66,030
	Total	**2,678,171**	**1,958,056**	**2,017,659**	**2,739,672**	**2,001,060**	**2,059,890**

iii. Geographic distribution of exposures

Table-3

2020 Consolidated

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	153,577	-	-	-	-	-	153,577
2	Personal Loans	1,042,859	-	-	-	-	-	1,042,859
3	Loans against Trust Receipts	92,506	-	-	-	-	-	92,506
4	Other Loans	1,397,158	-	-	-	-	-	1,397,158
5	Bills Purchased/Discounted	53,572	-	-	-	-	-	53,572
	Total	**2,739,672**	-	-	-	-	-	**2,739,672**

2020 Parent company

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	139,265	-	-	-	-	-	139,265
2	Personal Loans	722,479	-	-	-	-	-	722,479
3	Loans against Trust Receipts	92,506	-	-	-	-	-	92,506
4	Other Loans	993,238	-	-	-	-	-	993,238
5	Bills Purchased/Discounted	53,572	-	-	-	-	-	53,572
	Total	**2,001,060**	-	-	-	-	-	**2,001,060**

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

iv. Industry or counterparty type distribution of exposures

Table-4
2020 Consolidated

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	6,843	93,174	615	-	100,632	29,916
2	Export Trade	479	35	-	-	514	45,857
3	Wholesale & Retail Trade	13,002	110,999	780	-	124,781	14,901
4	Mining & Quarrying	19,829	157,937	464	-	178,230	2,135
5	Construction	39,522	244,795	43,286	-	327,603	34,335
6	Manufacturing	19,732	236,734	3,169	-	259,635	4,621
7	Electricity, gas & water	922	53,694	2,350	-	56,966	226,983
8	Transport & communication	3,366	111,603	143	-	115,112	553
9	Financial Institutions	2,144	78,892	-	-	81,036	-
10	Services	18,919	254,244	1,330	-	274,493	65,231
11	Personal Loans	-	1,042,859	-	-	1,042,859	9,974
12	Agriculture & Allied Activites	907	12,315	621	-	13,843	8,074
13	Government	-	-	-	-	-	23,505
14	Non-Resident Lending	-	3,387	-	-	3,387	-
15	All Others	27,912	131,855	814	-	160,581	4,593
16	**Total (1 to 15)**	**153,577**	**2,532,523**	**53,572**	**-**	**2,739,672**	**470,678**

2020 Parent Company

Sl. No		Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	5,444	74,763	615	-	80,822	27,845
2	Export Trade	479	35	-	-	514	45,790
3	Wholesale & Retail Trade	9,889	83,311	780	-	93,980	13,162
4	Mining & Quarrying	19,729	122,821	464	-	143,014	987
5	Construction	38,007	145,547	43,286	-	226,840	19,743
6	Manufacturing	18,578	158,992	3,169	-	180,739	2,303
7	Electricity, gas & water	672	46,411	2,350	-	49,433	223,760
8	Transport & communication	1,654	104,024	143	-	105,821	-
9	Financial Institutions	2,144	78,892	-	-	81,036	-
10	Services	15,917	129,262	1,330	-	146,509	49,359
11	Personal Loans	-	722,479	-	-	722,479	-
12	Agriculture & Allied Activites	907	6,264	621	-	7,792	-
13	Government	-	-	-	-	-	19,743
14	Non-Resident Lending	-	1,500	-	-	1,500	-
15	All Others	25,845	133,922	814	-	160,581	-
16	**Total (1 to 15)**	**139,265**	**1,808,223**	**53,572**	**-**	**2,001,060**	**402,692**

OMAN ARAB BANK SAOG
DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

v. Residual contractual maturity of credit exposure

Table-5

2020 Consolidated

Sl. No	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	12,286	175,664	23,603	-	211,553	98,696
2	1-3 months	12,286	252,711	28,286	-	293,283	239,837
3	3-6 months	12,286	107,934	656	-	120,876	43,873
4	6-9 months	12,286	56,859	-	-	69,145	29,035
5	9-12 months	12,286	73,119	1,027	-	86,432	32,410
6	1-3 years	30,715	398,184	-	-	428,899	22,906
7	3-5 years	30,715	329,104	-	-	359,819	3,818
8	Over 5 years	30,717	1,138,948	-	-	1,169,665	103
9	**Total**	**153,577**	**2,532,523**	**53,572**	**-**	**2,739,672**	**470,678**

2020 Parent Company

Sl. No	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	11,141	144,413	23,603	-	179,157	89,914
2	1-3 months	11,141	216,406	28,286	-	255,833	226,587
3	3-6 months	11,141	65,078	656	-	76,875	25,497
4	6-9 months	11,141	32,207	-	-	43,348	18,071
5	9-12 months	11,141	40,906	1,027	-	53,074	20,383
6	1-3 years	27,853	240,380	-	-	268,233	18,319
7	3-5 years	27,853	209,676	-	-	237,529	3,818
8	Over 5 years	27,854	859,157	-	-	887,011	103
9	**Total**	**139,265**	**1,808,223**	**53,572**	**-**	**2,001,060**	**402,692**

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020**

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

vi. Loans and provisions by major industry or counterparty type

Table-6

2020 Consolidated

SI. NO	Economic Sector	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	98,894	20,973	1,692	9,379	5,188	38
2	Export Trade	514	-	1	-	-	-
3	Wholesale & retail trade	125,270	6,445	1,721	4,706	11	-
4	Mining & quarrying	178,265	709	2,641	502	-	-
5	Construction	327,645	15,287	5,654	8,853	3,784	-
6	Manufacturing	260,266	15,959	4,834	6,175	1,087	-
7	Electricity ,gas & water	56,972	-	426	-	-	-
8	Transport & communication	116,891	539	514	290	82	-
9	Financial Institutions	84,501	70	737	40	3	-
10	Services	277,342	13,953	6,555	9,002	295	-
11	Personal Loans	1,017,346	21,350	4,327	10,080	4,334	673
12	Agriculture & Allied Activities	13,854	407	211	158	76	-
13	Government	-	-	4	-	-	-
14	Non-Resident Lending	3,387	1,887	-	1,887	-	-
15	All Others	178,525	25,432	10,242	14,087	298	278
16	**Total**	**2,739,672**	**123,011**	**39,559**	**65,159**	**15,158**	**989**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

2020 Parent Company

SI. NO	Economic Sector	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	80,822	20,973	614	9,379	6,868	38
2	Export Trade	514	-	1	-	-	
3	Wholesale & retail trade	93,980	158	1,612	59	11	
4	Mining & quarrying	143,014	-	2,386	-	-	
5	Construction	226,840	12,004	3,252	8,172	3,784	
6	Manufacturing	180,739	11,421	2,489	1,996	1,087	
7	Electricity ,gas & water	49,433	-	333	-	-	
8	Transport & communication	105,821	433	401	217	82	
9	Financial Institutions	81,036	70	318	40	3	
10	Services	146,509	8,212	3,726	4,582	295	
11	Personal Loans	722,479	18,222	3,212	8,803	4,334	673
12	Agriculture & Allied Activities	7,792	407	195	158	76	
13	Government	-	-	4	-	-	
14	Non-Resident Lending	1,500	-	-	-	-	
15	All Others	160,581	25,251	8,574	11,767	298	278
16	**Total**	**2,001,060**	**97,151**	**27,117**	**45,173**	**16,838**	**989**

***** Stage 3 ECL provided during the year does not include net recovery / release of RO 5.6 million.

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020**

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

vii. Geographic distribution of impaired loans

Table-7

2020 Consolidated

SI. No	Countries	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Oman	2,739,672	123,011	39,559	65,159	15,158	989
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**2,739,672**	**123,011**	**39,559**	**65,159**	**15,158**	**989**

2020 Parent country

SI. No	Countries	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Oman	2,001,060	97,151	27,117	45,173	16,838	989
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**2,001,060**	**97,151**	**27,117**	**45,173**	**16,838**	**989**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

viii. Movement in gross loans

Table-8

2020 Consolidated

Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,552,122	433,835	73,933	**2,059,890**
2	Migration /changes(+/-)	55,542	(63,966)	8,424	**-**
2a	Acquisition of Alizz	468,136	82,429	19,750	**570,315**
3	New Loans	1,278,188	188,266	24,631	**1,491,085**
4	Recovery of Loans	(1,345,490)	(32,383)	(2,756)	**(1,380,629)**
5	Loans written off	(17)	(1)	(971)	**(989)**
6	Closing Balance	2,008,481	608,180	123,011	**2,739,672**
7	Expected credit loss held	10,090	29,372	64,755	**104,217**

2020 Parent Company

Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,552,122	433,835	73,933	**2,059,890**
2	Migration /changes(+/-)	72,835	(81,109)	8,274	**-**
2a	Transfer of Al Yusr	(120,925)	(16,299)	(5,960)	**(143,184)**
3	New Loans	1,252,962	188,266	24,631	**1,465,859**
4	Recovery of Loans	(1,345,377)	(32,383)	(2,756)	**(1,380,516)**
5	Loans written off	(17)	(1)	(971)	**(989)**
6	Closing Balance	1,411,600	492,309	97,151	**2,001,060**
7	Expected credit loss held	7,373	19,648	45,173	**72,194**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals and the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage, which meet the conditions of CBO, for which risk weight assigned is 35%.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH (continued)

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:
Table-9

2020 Consolidated

Sl. No	Risk bucket	0%	20%	35%	50%	75%	100%	150%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	417,447	-	-	-	-	-	-	417,447
2	Banks(Rated)	-	63,394	-	59,156	-	74,837	-	197,387
3	Corporate	-	-	-	-	-	1,269,711	-	1,269,711
4	Retail	-	-	-	-	20,090	425,847	-	445,937
5	Claims secured by residential property	-	-	492,624	-	-	61,722	-	554,346
6	Claims secured by commercial property	-	-	-	-	-	326,145	-	326,145
7	Past due loans	-	-	-	-	-	59,283	-	59,283
8	Other assets	78,487	-	-	-	-	131,445	-	209,932
9	Un-drawn exposure	-	-	4,987	-	-	26,316	-	31,303
	Total	**495,934**	**63,394**	**497,611**	**59,156**	**20,090**	**2,375,306**	**-**	**3,511,491**

2020 Parent Company

Sl. No	Risk bucket	0%	20%	35%	50%	75%	100%	150%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	333,265	-	-	-	-	-	-	333,265
2	Banks(Rated)	-	63,353	-	37,435	-	70,465	-	171,253
3	Corporate	-	-	-	-	-	877,674	-	877,674
4	Retail	-	-	-	-	20,090	370,315	-	390,405
5	Claims secured by residential property	-	-	252,439	-	-	61,722	-	314,161
6	Claims secured by commercial property	-	-	-	-	-	326,145	-	326,145
7	Past due loans	-	-	-	-	-	51,112	-	51,112
8	Other assets	31,165	-	-	-	-	111,538	-	142,703
9	Un-drawn exposure	-	-	-	-	-	-	-	-
	Total	**364,430**	**63,353**	**252,439**	**37,435**	**20,090**	**1,868,971**	**-**	**2,606,718**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

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

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

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

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Treasury Division of the Bank. The Bank does not hold trading position in equities. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

Capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

Quantitative disclosure

The Bank's profits at 31 December 2020 may decrease by 3.4% (2019 – 2.5%) due to decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures
Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

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

Quantitative disclosure

The EAR at 31 December 2020 is 2.6% (2019 – 2.8%).

The table below summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

2020 Consolidated

	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	178,126	220,975
Due from banks	2.25	32,903	-	-	-	-	39,879	72,782
Loans and advances	5.58	1,125,212	126,175	164,630	1,196,621	22,817	-	2,635,455
Investment- FVTPL & FVOCI		-	-	-	42,251	-	4,792	47,043
Amortized Cost	5.15	2,378	-	-	88,583	102,214	-	193,175
Goodwill		-	-	-	-	-	6,505	6,505
Other assets		44,017	-	-	-	-	33,486	77,503
Property and equipment		-	-	-	-	-	46,605	46,605
Total assets		**1,246,859**	**126,175**	**164,630**	**1,327,455**	**125,531**	**309,393**	**3,300,043**
Liabilities								
Due to banks	1.78	8,767	-	-	-	-	5,654	14,421
Deposits from customers	3.16	583,912	527,766	778,866	286,301	-	578,465	2,755,310
Other liabilities		7,174	-	-	-	-	67,054	74,228
Subordinated debt	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,507	4,507
Total liabilities		**599,853**	**547,766**	**778,866**	**286,301**	**-**	**655,680**	**2,868,466**
Total interest sensitivity gap		**647,006**	**(421,591)**	**(614,236)**	**1,041,154**	**125,531**	**(346,287)**	**431,577**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2020 Parent Company

	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the Central Bank of Oman	1.00	42,349	-	-	-	500	130,803	173,652
Due from banks	2.41	32,904	-	-	-	-	38,091	70,995
Loans and advances	5.55	719,454	45,682	15,891	1,146,957	882	-	1,928,866
Investment- FVTPL & FVOCI		-	-	-	-	-	4,792	4,792
Investments in subsidiary		-	-	-	-	107,144	-	107,144
Amortized Cost	5.36	2,378	-	-	88,583	80,947	-	171,908
Other assets		44,300	-	-	-	-	10,987	55,287
Property and equipment		-	-	-	-	-	42,479	42,479
Total assets		**841,385**	**45,682**	**15,891**	**1,235,540**	**189,473**	**227,152**	**2,555,123**
Liabilities								
Due to banks	1.75	4,917	-	-	-	-	5,654	10,571
Deposits from customers	2.31	338,912	504,027	502,619	151,071	-	534,133	2,030,762
Other liabilities		7,174	-	-	-	-	50,523	57,697
Subordinated debt	5.50	-	20,000	-	-	-	-	20,000
Taxation		-	-	-	-	-	4,507	4,507
Total liabilities		**351,003**	**524,027**	**502,619**	**151,071**	**-**	**594,817**	**2,123,537**
Total interest sensitivity gap		**490,382**	**(478,345)**	**(486,728)**	**1,084,469**	**189,473**	**(367,665)**	**431,586**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK

Qualitative Disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

2020 Consolidated

	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	181,418	12,126	193,544	12,447	14,984	220,975
Due from banks	59,782	13,000	72,782	-	-	72,782
Loans and advances	516,954	263,185	780,139	778,421	1,076,895	2,635,455
Investment securities	49,052	-	49,052	96,481	94,685	240,218
Goodwill	-	-	-	-	6,505	6,505
Other assets	55,225	22,253	77,478	-	25	77,503
Property and equipment	-	-	-	-	46,605	46,605
Total assets	**862,431**	**310,564**	**1,172,995**	**887,349**	**1,239,699**	**3,300,043**
Liabilities						
Due to banks	14,421	-	14,421	-	-	14,421
Deposits from customers	383,484	752,188	1,135,672	849,320	770,318	2,755,310
Other liabilities	41,814	9,953	51,767	22,461	-	74,228
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	4,099	-	4,099	408	-	4,507
Total liabilities	**443,818**	**782,141**	**1,225,959**	**872,189**	**770,318**	**2,868,466**
Net assets (Total equity)	**418,613**	**(471,577)**	**(52,964)**	**15,160**	**469,381**	**431,577**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

2020 Parent Company

	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	134,620	12,126	146,746	12,447	14,459	173,652
Due from banks	57,995	13,000	70,995	-	-	70,995
Loans and advances	435,086	161,584	596,670	505,761	826,435	1,928,866
Investment securities	6,806	-	6,806	75,209	94,685	176,700
Investments in subsidiary	-	-	-	-	107,144	107,144
Other assets	55,016	271	55,287	-	-	55,287
Property and equipment	-	-	-	-	42,479	42,479
Total assets	**689,523**	**186,981**	**876,504**	**593,417**	**1,085,202**	**2,555,123**
Liabilities						
Due to banks	10,571	-	10,571	-	-	10,571
Deposits from customers	302,257	543,938	846,195	558,360	626,207	2,030,762
Other liabilities	41,814	10,236	52,050	5,647	-	57,697
Subordinated loans	-	20,000	20,000	-	-	20,000
Taxation	4,099	-	4,099	408	-	4,507
Total liabilities	**358,741**	**574,174**	**932,915**	**564,415**	**626,207**	**2,123,537**
Net assets (Total equity)	**330,782**	**(387,193)**	**(56,411)**	**29,002**	**458,995**	**431,586**

Liquidity Coverage Ratio (LCR)
The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. LCR measures the stock of High Quality Liquid Assets (HQLA) against short-term obligations (30 days). The Bank always maintains its ratio well above the regulatory requirement. The LCR of the Bank is 148% as at 31 December 2020 (Parent company 158%).

Net Stable Funding Ratio (NSFR)
NSFR regulation seeks that the Bank diversify its funding sources and reduce their dependency on short-term wholesale markets. The ratio compares the stock of Stable Funding against Required Funding with a minimum ratio of 100% as per the regulatory guidance. The Bank maintains a strong NSFR ratio to avoid any funding mis-match. The NSFR of the Bank is 116% as at 31 December 2020 (Parent Company 120%).

The detailed LCR and NSFR disclosure are given below:

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

LCR Consolidated

(RO ‘000)

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		451,414
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	706,881	48,673
3	Stable deposits	369,432	14,928
4	Less stable deposits	337,450	33,745
5	Unsecured wholesale funding, of which:	844,347	359,040
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	814,272	328,965
7	Non-operational deposits (all counterparties)	30,075	30,075
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	68,853	33,382
11	Outflows related to derivative exposures and other collateral	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	68,853	33,382
14	Other contractual funding obligations	23,850	23,850
15	Other contingent funding obligations	438,222	21,911
16	**TOTAL CASH OUTFLOWS**		**486,855**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	210,809	105,404
19	Other cash inflows	56,354	76,354
20	**TOTAL CASH INFLOWS**	**267,163**	**181,758**
			Total Adjusted Value
21	**TOTAL HQLA**		**451,414**
22	**TOTAL NET CASH OUTFLOWS**		**305,097**
23	**LIQUIDITY COVERAGE RATIO (%)**		**148**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

LCR Parent Company

(RO '000)

	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		345,435
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	496,678	36,572
3 Stable deposits	191,714	6,075
4 Less stable deposits	304,964	30,496
5 Unsecured wholesale funding, of which:	642,061	277,300
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	611,986	247,225
7 Non-operational deposits (all counterparties)	30,075	30,075
8 Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which	34,145	30,414
11 Outflows related to derivative exposures and other collateral	-	-
12 Outflows related to loss of funding on debt products	-	-
13 Credit and liquidity facilities	34,145	30,414
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	402,692	20,135
16 **TOTAL CASH OUTFLOWS**		**364,421**
Cash Inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	179,156	89,578
19 Other cash inflows	56,354	56,354
20 **TOTAL CASH INFLOWS**	**235,510**	**145,932**
		Total Adjusted Value
21 **TOTAL HQLA**		**345,435**
22 **TOTAL NET CASH OUTFLOWS**		**218,489**
23 **LIQUIDITY COVERAGE RATIO (%)**		**158**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

NSFR Consolidated

	ASF Item	Unweighted value by residual maturity (RO '000)				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	424,707	-	-	-	424,707
2	*Regulatory capital*	424,707	-	-	-	424,707
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers	-	-	-	784,776	715,976
	business customers:					
5	*Stable deposits*				193,554	183,876
6	*Less stable deposits*				591,222	532,100
7	Wholesale funding:	715,597	182,681	82,206	-	766,278
8	*Operational deposits*	-	8,223			4,112
9	*Other wholesale funding*	715,597	174,458	82,206		762,166
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				501,318	501,318
14	**Total ASF**					**2,408,279**
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes					20,044
17	Performing loans and securities:	426,743	471,742	74,131	1,199,952	1,019,959
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	426,743	471,742	74,131	-	-
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which				1,199,952	1,019,959
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				492,612	320,198
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	230,964	38,867		-	698,483
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	230,964	38,867	1,572		698,483
32	Off-balance sheet items					23,854
33	**TOTAL RSF**					**2,082,537**
34	**NET STABLE FUNDING RATIO (%)**					**116**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

NSFR Parent Company:

ASF Item		Unweighted value by residual maturity (RO '000)				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	321,508	-	-	-	321,508
2	*Regulatory capital*	321,508	-	-	-	321,508
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers	-	-	-	546,236	501,290
	business customers:					
5	*Stable deposits*				193,554	183,876
6	*Less stable deposits*				352,682	317,414
7	Wholesale funding:	370,337	179,381	82,206	-	591,998
8	*Operational deposits*	-	4,923			2,462
9	*Other wholesale funding*	370,337	174,458	82,206		589,536
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				363,869	363,869
14	**Total ASF**					**1,778,665**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes					19,045
17	Performing loans and securities:	326,158	471,742	74,131	830,995	706,346
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	326,158	471,742	74,131	-	-
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which				830,995	706,346
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				252,439	164,085
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	171,782	38,867		-	566,778
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	171,782	38,867	1,572		566,778
32	Off-balance sheet items					20,342
33	**TOTAL RSF**					**1,476,597**
34	**NET STABLE FUNDING RATIO (%)**					**120**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the Consolidated and Parent entity is as follows:

Leverage Ratio Consolidated

Oman Arab Bank SAOG - Consolidated

Basel III leverage ratio framework and disclosure requirements - Reports for year end 2020

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	Total consolidated assets as per published financial statements	3,300,043
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	149,565
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	323,735
7	Other adjustments	-
8	**Leverage ratio exposure**	3,773,343

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,300,043
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	3,300,043
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	149,565
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**149,565**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	470,679
18	(Adjustments for conversion to credit equivalent amounts)	(146,944)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**323,735**
	Capital and total exposures	
20	**Tier 1 capital**	401,201
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	3,773,343
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	10.6

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

I. LIQUIDITY RISK (continued)

Leverage Ratio Parent Company

Oman Arab Bank SAOG - Parent Company

Basel III leverage ratio framework and disclosure requirements - Reports for year ended 2020

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	Total consolidated assets as per published financial statements	2,555,123
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	149,565
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	221,755
7	Other adjustments	-
8	**Leverage ratio exposure**	2,926,443

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-20
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,555,123
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,555,123
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	149,565
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**149,565**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	402,692
18	(Adjustments for conversion to credit equivalent amounts)	(180,937)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**221,755**
	Capital and total exposures	
20	**Tier 1 capital**	305,472
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	2,926,443
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	10.4

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

J. OPERATIONAL RISK

Qualitative Disclosures

Basel Committee on Banking Supervision has defined operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

The Bank is in the process of setting up the systems for collecting the data relating to operational risk. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 202 Million at 31 December 2020 (Parent Company: 2020 RO 165 million).

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

K. COMPOSITION OF CAPITAL DISCLOSURE

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank's Statement of Financial Position with the regulatory capital elements is provided as follows using the three step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

RECONCILIATION	Financial Position as in published financial statements consolidated As at Dec-31-2020	Under regulatory scope of consolidation - consolidated As at Dec-31-2020	Financial Position as in published financial statements - Parent As at Dec-31-2020	Under regulatory scope of consolidation - Parent As at Dec-31-2020
Assets	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Cash and balances with Central Bank of Oman	220,975	220,975	173,652	173,652
Due from banks	72,782	72,782	70,995	70,995
Loans and advances	2,635,455	2,635,455	1,928,866	1,928,866
Investments in securities	240,218	240,218	176,700	176,700
Property and equipment	46,605	46,605	42,479	42,479
Goodwill	6,505	6,505		
Investments in subsidiary	-	-	107,144	107,144
Other assets	77,503	77,503	55,287	55,287
Total assets	3,300,043	3,300,043	2,555,123	2,555,123
Liabilities				
Due to banks	14,421	14,421	10,571	10,571
Customer deposits	2,755,310	2,755,310	2,030,762	2,030,762
Current and deferred tax liabilities	-	-	-	-
Other liabilities	74,228	74,228	57,697	57,697
Subordinated bonds	20,000	20,000	20,000	20,000
Taxation	4,507	4,507	4,507	4,507
Total liabilities	2,868,466	2,868,466	2,123,537	2,123,537
Shareholders' Equity				
Paid-up share capital	166,941	166,941	166,941	166,941
Share Premium	36,565	36,565	36,565	36,565
Special Reserve	3,837	3,837	3,837	3,837
Legal reserve	46,178	46,178	46,178	46,178
General reserve	25,560	25,560	25,560	25,560
Retained earnings	52,606	52,606	52,884	52,884
Cumulative changes in fair value of investments	(1,793)	(1,793)	(2,062)	(2,062)
Impairment reserve	9,130	9,130	9,130	9,130
Subordinated debt reserve	20,000	20,000	20,000	20,000
Total shareholders' equity	359,024	359,024	359,033	359,033
Perpetual Tier 1 Capital Bonds	**72,553**	**72,553**	**72,553**	**72,553**
Total liability and shareholders' funds	**3,300,043**	**3,300,043**	**2,555,123**	**2,555,123**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

RECONCILIATION	Financial Position as in published financial statements consolidated	Under regulatory scope of consolidation - consolidated	Financial Position as in published financial statements - Parent	Under regulatory scope of consolidation - Parent	Reference
	As at Dec-31-2020	As at Dec-31-2020	As at Dec-31-2020	As at Dec-31-2020	
	RO '000	RO '000	RO '000	RO '000	
Assets					
Cash and balances with CBO	**220,975**	**220,975**	**173,652**	173,652	
Balance with banks and money at call and short notice	**72,782**	**72,782**	**70,995**	70,995	
Investments in Subsidiary	**-**	**-**	**107,144**	-	
Investments :	**240,218**	**240,218**	**176,700**	**176,700**	
Of which :					
Held to collect	193,175	193,175	171,908	171,908	
FVOCI	46,640	46,640	4,389	4,389	
FVPL	403	403	403	403	
Held for Trading			-	-	
Goodwill	**6,505**	**-**	**-**	-	
Loans and advances	**2,635,455**	**2,651,600**	**1,928,866**	**1,937,834**	
Of which :					
Loans and advances to domestic banks	-	-	-	-	
Loans and advances to non-resident banks	-	-	-	-	
Loans and advances to domestic customers	2,001,060	1,918,162	2,001,060	1,918,162	
Loans and advances to non-resident Customers for domestic operations	-	-	-	-	
Loans and advances to non-resident Customers for operations abroad	-	-	-	-	
Loans and advances to SMEs	-	82,898	-	82,898	
Financing from Islamic banking window	738,612	738,612	-	-	
Allowances for the credit losses	(104,217)	(88,072)	(72,194)	(63,226)	
Of which :					
Stage 3	(62,863)	(62,863)	(45,173)	(45,173)	
Stage 1 & Stage 2	(41,354)	(25,209)	(27,021)	(18,053)	a
Fixed assets	**46,605**	**46,605**	**42,479**	**42,479**	
Other assets	**77,503**	**77,503**	**55,287**	**55,287**	
Total Assets	**3,300,043**	**3,309,683**	**2,555,123**	**2,456,947**	

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2020

RECONCILIATION	**Financial Position as in published financial statements consolidated**	**Under regulatory scope of consolidation - consolidated**	**Financial Position as in published financial statements - Parent**	**Under regulatory scope of consolidation - Parent**	**Reference**
Capital & Liabilities					
Paid-up Capital	**166,941**	**166,941**	**166,941**	**166,941**	
Of which:					
Amount eligible for CET1	166,941	166,941	166,941	166,941	b
Amount eligible for AT1	72,553	72,553	72,553	72,553	
Reserves & Surplus	**192,083**	**181,190**	**192,092**	**173,121**	
Of which:					
Legal reserve	46,178	46,178	46,178	46,178	c
General reserve	25,560	25,560	25,560	25,560	d
Retained earnings	52,606	52,606	52,884	44,537	e
Proposed dividends					
Cumulative changes in fair value of investments	(1,793)	(2,119)	(2,062)	(2,119)	
Of which:					
Amount eligible for Tier 2 capital		57	-	57	f
Share premium	36,565	36,565	36,565	36,565	g
Impairment reserve	9,130		9,130		
Subordinated debt reserve	20,000	20,000	20,000	20,000	i
Special reserve	3,837	2,400	3,837	2,400	j
Total Capital	**431,577**	**420,684**	**431,586**	**412,615**	

RECONCILIATION	**Financial Position as in published financial statements consolidated**	**Under regulatory scope of consolidation - consolidated**	**Financial Position as in published financial statements - Parent**	**Under regulatory scope of consolidation - Parent**	**Reference**
Deposits	**2,755,310**	**2,755,310**	**2,030,762**	**2,030,762**	
Of which:					
Deposits from banks					
Customer deposits	2,030,762	2,030,762	2,030,762	2,030,762	
Deposits of Islamic Banking window	724,548	724,548	-	-	
Borrowings	**34,421**	**34,421**	**30,571**	**30,571**	
Of which:					
From CBO	-	-	-	-	
From banks	14,421	14,421	10,571	10,571	
From other institutions & agencies	-	-	-	-	
Borrowings in the form of bonds,Debentures and sukuks	20,000	20,000	20,000	20,000	
Of which:					
Directly issued qualifying Tier 2 instruments	20,000	-	20,000	-	h
Amount de-recognised from Tier 2 capital	-	20,000	-	20,000	
Other liabilities & provisions	**78,735**	**78,735**	**62,204**	**62,204**	
Total Capital, Other liabilities & provisions	**3,300,043**	**3,289,285**	**2,555,123**	**2,544,499**	

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

	Common Equity Tier 1 capital: instruments and reserves	**Under regulatory scope of consolidation - consolidated**	**Under regulatory scope of consolidation - Parent**	**Reference**
1	Directly issued qualifying common share capital	166,941	166,941	b
2	Retained earnings	52,606	52,884	e
3	Accumulated other comprehensive income (and other reserves)	130,703	130,703	c + d + g + i + j
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	**Common Equity Tier 1 capital (CET1)**	**350,250**	**350,528**	
7	**Additional Tier 1 capital (AT1)**	**72,553**	72,553	
8	**Tier 1 capital (T1 = CET1 + AT1)**	**422,803**	**423,081**	
	Tier 2 capital: instruments and provisions			
9	Directly issued qualifying Tier 2 instruments		-	h
10	Eligible expected credit loss	25,209	18,053	a
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	25	25	f
12	**Tier 2 capital (T2)**	**25,234**	**18,078**	
	Total capital (TC = T1 + T2)	**448,037**	**441,159**	

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

Main features template for capital instruments

Bank has three types of capital instruments viz., Common Equity Shares, Additional Tier 1 Perpetual bonds and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

Main features of Common Shares	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005260
Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in CET-1 Capital
Post-transitional Basel III rules	Eligible for inclusion in CET-1 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 166.9 Million
Par value of instrument	OMR 0.1
Accounting classification	Shareholder's equity
Original date of issuance	Common shares have been announced many times. The change in position of common shares during the year has been provided in point 20 of notes to accounts.
Perpetual or dated	Perpetual
Original maturity date	-
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	No coupon
Coupon rate and any related index	-
Existence of a dividend stopper	Yes
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	Yes
If write-down, write-down trigger(s)	Non-viability event
If write-down, full or partial	Full
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully Subordinated (Subordinated debt are senior to ordinary shares)
Non-compliant transitioned features	-

Subordinated Loans

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

Main features of Subordinated Loans	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in Tier - 2 Capital
Post-transitional Basel III rules	Eligible for inclusion in Tier - 2 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	-
Par value of instrument	OMR 20 Million
Accounting classification	Subordinated Debt
Original date of issuance	30/11/2015
Perpetual or dated	Dated
Original maturity date	30/05/2021
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed coupon
Coupon rate and any related index	5.50%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	Yes
If write-down, write-down trigger(s)	Non-viability event
If write-down, full or partial	full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
Non-compliant transitioned features	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

Perpetual Bonds

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

	Main features of Perpetual Bonds	
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005344
3	Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 30 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	29/12/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 29/01/2022 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 29/01/2022, means each 29 June and 29 December in each year, starting on and including 29/01/2020
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.75%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Main features of Perpetual Bonds	
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000006805
3	Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 42.553 Million
9	Par value of instrument	OMR 42.553 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	17/10/2018
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 17/10/2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occurring after 17/10/2023, means each 17 April and 17 October in each year, starting on and including 17/10/2023
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.5%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Non-viability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

The following table shows the composition of capital under Basel III:

	Common Equity Tier 1 capital: instruments and reserves	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT Consolidated RO '000	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT Parent Company RO '000
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	166,941	166,941
2	Retained earnings	52,606	52,884
3	Accumulated other comprehensive income (and other reserves)	130,703	130,703
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**350,250**	**350,528**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(2,119)	(2,119)
8	Goodwill (net of related tax liability)	(6,505)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(1,764)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(2,867)	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	(107,144)
20	Mortgage Servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-	-
28	Perpetual Bonds		
29	**Total regulatory adjustments to Common equity Tier 1**	**(13,255)**	**(109,263)**
29	**Common Equity Tier 1 capital (CET1)**	**336,995**	**241,265**
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	72,553	72,553
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	**72,553**	**72,553**
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	**-**
44	**Additional Tier 1 capital (AT1)**	**72,553**	**72,553**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**409,548**	**313,818**
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	25	25
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-
50	Subordinated term debt.	-	-
50	Eligible expected credit loss	25,209	18,053
51	**Tier 2 capital before regulatory adjustments**	**25,234**	**18,078**
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-	-
57	**Total regulatory adjustments to Tier 2 capital**	-	**-**
58	**Tier 2 capital (T2)**	**25,234**	**18,078**
59	**Total capital (TC = T1 + T2)**	**434,782**	**331,896**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	**2,820,137**	**2,175,365**
60	**Total risk weighted assets (60a+60b+60c)**	**2,820,137**	**2,175,365**
60a	*Of which: Credit risk weighted assets*	*2,600,029*	1,997,015
60b	*Of which: Market risk weighted assets*	*18,200*	13,075
60c	*Of which: Operational risk weighted assets*	*201,908*	165,275
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.95%	11.09%
62	Tier 1 (as a percentage of risk weighted assets)	14.52%	14.43%
63	Total capital (as a percentage of risk weighted assets)	15.42%	15.26%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.250%	8.250%
65	*of which: capital conservation buffer requirement*	1.250%	1.250%
66	*of which: bank specific countercyclical buffer requirement*	*0%*	*0%*
67	*of which: D-SIB/G-SIB buffer requirement*	*0%*	*0%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.42%	4.26%
National minima (if different from Basel III)			

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2020

69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.875%	12.875%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	-
73	Significant investments in the common stock of financials	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,867	-
Applicable caps on the inclusion of provisions in Tier 2			
76	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to standard approach (prior to application of cap)	25,209	18,053
77	Cap on inclusion of Expected credit loss in Tier 2 under standardised approach	1.25%	1.25%
78	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of Expected credit loss in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	*Current cap on CET1* instruments *subject to phase out arrangements*	-	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	-