ANNUAL REPORT

2020

البنك الوطني العماني

NBO

NBO.OM

سلام لوطني

من الوطني

حضرة صاحب الجلالة السلطان قابوس بن سعيد المعظم - طيب الله ثراه

HIS MAJESTY SULTAN QABOOS BIN SAID

حضرة صاحب الجلالة السلطان هيثم بن طارق المعظم - حفظه الله ورعاه

HIS MAJESTY SULTAN HAITHAM BIN TARIK

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2020 Overview


OUR VISION:
TO BE THE
BANK OF
CHOICE

NBO BELIEVES IN THE POWER OF INNOVATION AS A CATALYST FOR GREATER CONVENIENCE AND ACCESSIBILITY **AND HAVE CONTINUED TO UTILISE TECHNOLOGY TO CREATE MORE SEAMLESS EXPERIENCES FOR ITS CUSTOMERS**

Amal Suhail Bahwan
Chairperson

CHAIRPERSON'S **REPORT 2020**

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to present the 2020 Annual Report for the period ended 31st December 2020.

OMAN'S **ECONOMY**

The Sultanate's economy is anticipated to make a positive recovery with an estimated average four percent of growth over the 2021-2022 timeframe. According to the World Bank, the recovery will be fueled by the fiscal strategy unveiled by His Majesty Sultan Haitham bin Tarik, dubbed the 'Medium Term Fiscal Balance Plan (2020 – 2024). This provides a blueprint for achieving fiscal sustainability during this period, notably by paring debt, prioritizing spending towards strategic national objectives, conserving and boosting State reserves, and monetizing government assets, among other goals. This will also be supported by an increase in local consumption and the roll-out of Value-Added Tax (VAT).

In a step towards renewed renaissance of Oman, His Majesty Sultan Haitham bin Tarik, issued a series of Royal Decrees in 2020 appointing a new Council of Ministers, along with a number of undersecretaries, governors, and other senior officials. The Royal Decrees were a welcome step to decrease capital expenditure at a time of fiscal constraints, with the main aim is to streamline governmental operations by centralizing decision making, improving speed and flexibility to benefit the economy, and supporting the private sector and foreign investment. In addition to the above measures, endorsed by His Majesty, aiming at enhancing non-oil revenue and reducing spending on government units, leading to fiscal sustainability, the State's General Budget for Fiscal Year 2021 has been prepared in a way that goes in line with the objectives of Oman Vision 2040 and Tenth Five-Year Plan (2021-2025). One more notable achievement saw the Sultanate successfully concluding the issuance of RO 208 million local sovereign sukuk. Furthermore, the 2021 Budget endeavours to enable the private sector to play a greater role in accelerating economic growth, and to create more job opportunities.

FINANCIAL **SECTOR**

Oman's banking and financial services sector has gone through some challenges as a result of the COVID-19 pandemic including the slowdown in business activity, the volatile price of oil and the sharp contraction in economic growth. With that said, the sector showed considerable resilience and its ability to withstand adverse shocks continued to be strong.

As an essential service, the sector was able to continue operating through the crisis and played a key role in implementing many of the government's policies to support SMEs and corporates.

It supported the economy by providing relief to the affected borrowers in the form of deferment of loans besides extending additional credit to meet the financing needs of the economy. We are expecting the sector to begin its recovery by re-accelerating across a number of metrics in 2021. Future growth in the market will stem from the increasing importance of Islamic finance, a clear opportunity to leverage for Muzn Islamic's performance and growth potential.

OPERATING **PERFORMANCE**

Given this backdrop, the net profit for the year 2020, stood at OMR 18.1 million, compared to OMR 51.4 million for the same period last year, showing a decrease of 64.7 per cent - primarily due to lower income and higher loan impairment charge, mainly arising out of COVID-19 pandemic.

Net Interest for the year 2020 is OMR 90.9 million, showing a decrease of 3.3 per cent over the corresponding period last year, primarily due to margin compression. With more customers opting for deferral of installments as allowed by regulations, the bank was holding additional deposit buffers to manage the liquidity. In addition to this, the reduction in LIBOR during the year, coupled with increase in OMR cost of funds due to tightening liquidity in the market have resulted in NII being lower year on year. The NII margin for 2020 registered 2.9 per cent and is lower compared to 3.1 per cent for the corresponding period last year because of above stated reasons. However the bank continued to support the borrowing needs of its customers in this time of need, and selectively grew the loan book during the year.

FORBES MIDDLE EAST'S TOP 100 COMPANIES 2020

CAPITAL ADEQUACY RATIO 16.4%

Fee income for the year 2020 is OMR 26.1 million, lower compared to last year by 24.1 per cent. The lower economic activity arising out of COVID-19 and the resultant lockdown, coupled with regulatory guidelines to waive certain fees have impacted most of our fee lines from 2019. However with the economic activity picking up after the Government eased the lockdown restrictions, the fee income has started showing gradual improvement in the fourth quarter.

Total expenses in 2020 were OMR 63.9 million, marginally higher by 0.3 per cent compared to corresponding period last year.

Net Impairment charge for 2020 is OMR 31.3 million, compared to OMR 7.7 million for the corresponding period last year. In addition to the provisions as per IFRS 9, the bank had provided for additional management overlays because of stressed macro economic assumptions and certain collective provisions for potential restructuring, considering the instalment deferrals sought by customers.

Gross loans and advances as at 31st December 2020 are at OMR 3.04 billion, showing growth of 4.2 per cent over last year. Customer deposits correspondingly are at OMR 2.5 billion, with the bank continuing to maintain a healthy low cost mix.

The bank's core equity and total capital Adequacy Ratio stands at 12 per cent and 16.4 per cent respectively and is considered adequate, given the economic circumstances.

ORGANIZATIONAL **UPDATES**

The year 2020 has undoubtedly proven to be full of challenges, where we have witnessed economies across the globe be impacted by adverse market conditions caused by the pandemic. It changed the way governments, businesses and people interact and saw exponential growth of online banking and e-Commerce platforms. But with every challenge, there are opportunities and hope. This is particularly true when it comes to NBO.

NBO built a strong foundation to sustain its future and to continue this path and focused on shaping an organization structure that is aligned to strategic priorities, as it is an important part of NBO's transformation and vision, People, Brand, Digital, Asset Quality, Liabilities, Optimization, and Partnerships. In order for us to achieve the goals outlined, we are undertaking very critical steps that will protect the legacy we have built in the market, while continuing to create value for our customers and harness the talent of this bank.

We are taking future-driven steps to safeguard and optimise our business and at the same time foster our people, specially our young Omani workforce to reach their full potential. We are confident in the capabilities of the Omani caliber and believe that we have a very talented pool of Omanis that could lead this organization to greater success during the next phase of our growth journey.

In July 2020, we welcomed Abdullah Al Hinai as the new Chief Executive Officer of the National Bank of Oman and are certain that he will play a critical role in the transformational journey of the bank and reinforce our nation's vision in building a system that empowers national talent.

CORPORATE **GOVERNANCE**

I am honored to be elected as the Chairperson of NBO for a period of three years. The new board includes Sheikh Abdulla Al Thani as Deputy Chairperson, Mr Hamad Al Wahaibi, Ms Najat Al Lawatia, Mr Ghassan Al Hashar, Mr Mohammed Ismail Mandani, Mr Rahul Kar, Mr Fahad Badar, Mr Joseph Abraham, Mr Said Al Habsi and Dr. Ghazi Al Alawi.

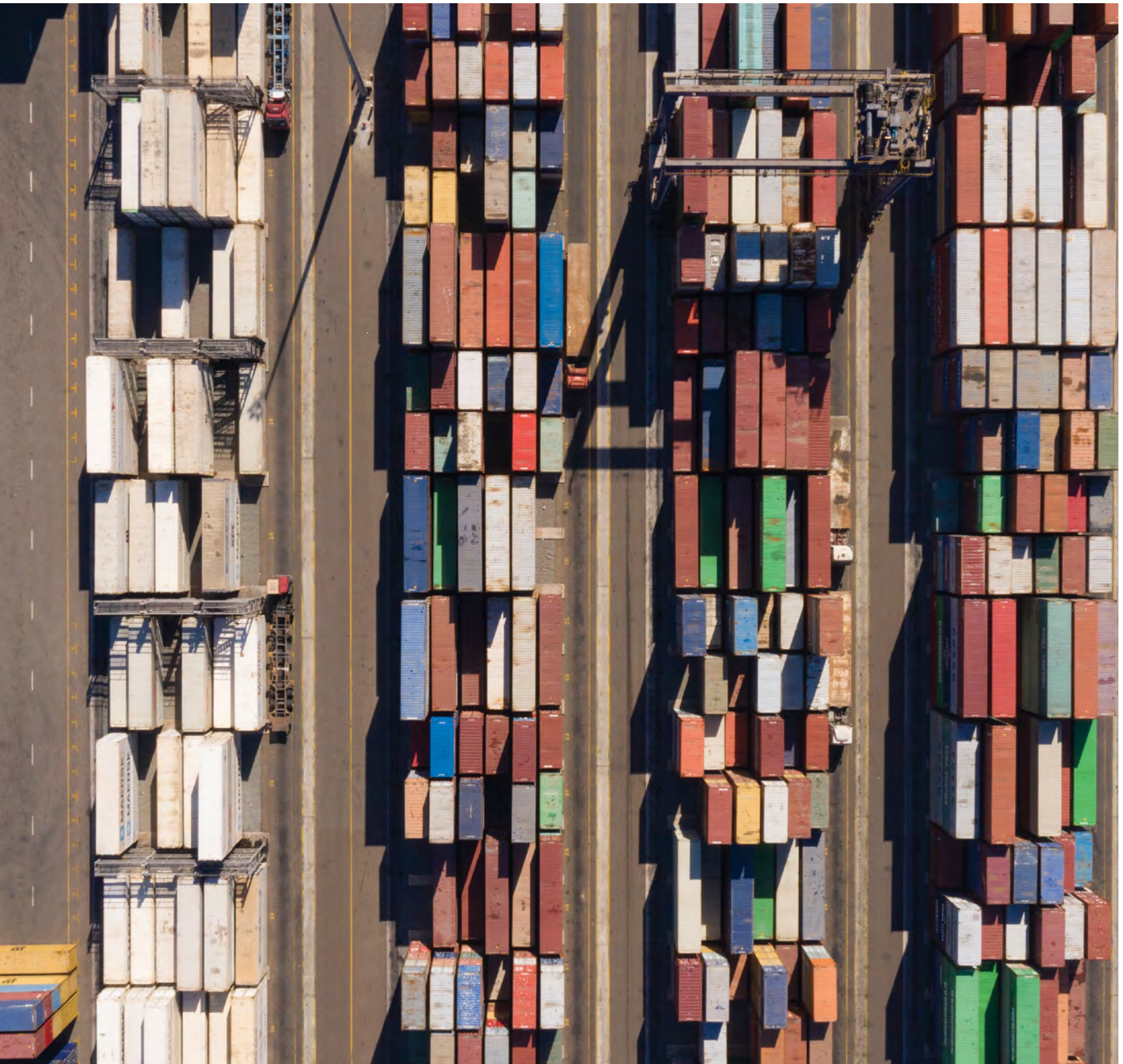
KEY **ACHIEVEMENTS**

Rounding off a busy 2020, NBO has not only embraced the challenges emerging from this disruption but has thrived. Driven by a desire to offer the very best to our customers, by remaining agile, resilient, and continuing to focus on innovation, we have quickly adapted to a rapidly altered landscape and continue to pioneer service excellence and strengthen our reputation as the 'bank of choice'.

Thanks to our focus on digital, we were able to smoothly adapt to the challenges posed by COVID-19, seamlessly enabling our employees to work from home and continue to offer a superiour customer experience. Enhancing our digital channels to enable customers to bank from home, we launched our digital remittance service, where customers can send funds in real time to seven different countries, without having to set foot outside the door. To promote financial inclusion among all sectors, we also launched our new multi-lingual mobile banking service, which is part of the bank's award-winning Mobile App. Continuing to open up more channels of communication with our customers, we added a new WhatsApp service allowing customers to chat in real time with the bank, and get answers to a wide range of queries.

Another key achievement was the expansion of our network of self-service kiosks for debit and Badeel pre-paid cards. We now have 31 kiosks where customers can replace and renew their cards, without needing to go into a branch. We intend to roll-out this self-service functionality for all payment cards in 2021, as part of our journey towards becoming a fully digitally-enabled bank.

Oman's economy is set to start improving with 2021 unfolding, **which reflects on a strengthening consumer confidence**



The increased appetite for 'saving for tomorrow' was also evident in the performance of our Wealth Management advisory business. Both our Sadara (affluent) and Mazaya (mass affluent) propositions achieved significant growth in customer numbers, as well as transaction volumes. Year-on-year investment revenues grew by around 69%, with our wealth management client base growing from just around 18 in 2015 to over 975 in 2020.

Our ethos is to constantly and continuously nurture local talent, which in turn help them shine and deliver outstanding results individually and collectively for the team. In a superb individual achievement, our Head of Telebanking was named Best Contact Center Leader 2020 in Europe, Middle East and Africa by Contact Center World in its annual Top Ranking Performers Awards. During the same awards, we secured second place for Best Contact Center in a clear recognition ot the team's efforts in transforming our services from traditional to digital ones, which continued to maximise customer experience. The year 2020 also another milestone for our Call Centre that achieved 90% positive feedback through our customer satisfaction surveys.

We believe in a customer-first mindset – **putting our customers at the centre of everything we do**

OMAN BANKING **OUTLOOK 2021**

Oman's economy is set to start improving with 2021 unfolding, which reflects on a strengthening consumer confidence, despite the challenges posed by low oil prices. The Sultanate is looking to weather the storm through adopting balanced ideas and assertive policy steps, as well as fostering entrepreneurialism and partnerships that are helping economic recovery and growth. In the long-term, high deficits, muted economic growth and rapid increases in the working-age population mean that the well-recognised need for economic diversification continues to take centre stage for the Sultanate.

NBO **OUTLOOK 2021**

Our approach has been one of prudent growth and the protection of shareholder returns. As we head into 2021, COVID-19 fatigue continues, but so does our resolve to stay strong and committed as a team to protect our health, ensure our safety and serve our customers. We remain optimistic over the upcoming growth opportunities of our organization on all levels.

We also renew our commitment to continue on the path of our strategy, prioritizing long-term stability and profitability over short-term gain. We identified opportunities for growth, re-centering our strategy to focus on Prudence, Value Creation and Sustainability for the next three years. The NBO workforce has also shown itself to be extremely adaptable and resilient in continuing to deliver leading service levels to our customers, no matter what challenges we face. This strategy has served us well before and is the right path for the future.

Generous contributions **to tackle** COVID-19 Pandemic

NBO **CARES**

As a major financial institution, we consider the impacts that our business has on society. We strive to contribute to sustainable economic growth, enhance our own business resiliency and longevity, and deliver positive impact for key stakeholders including customers, employees, shareholders and communities.

Throughout 2020, we continued with our NBO Cares campaign centred on taking care of our customers, while ensuring they can continue to bank uninterrupted. We set out a clearly defined Business Continuity Plan to support all of our business functions and implemented all official directives relating to health and safety. At the heart of this was our customers and the community at large. Above all, we prioritised the health and wellbeing of our people and our customers. We were one of the first banks to introduce a 'work from home' policy for employees. We pride ourselves on finding ways to support them as they deal with the impacts of the pandemic. Whether that be by offering financial aid packages to our borrowing customers, or partnerships with organizations like Dar Al Atta'a, to support families in need with donations or handing out food hampers, initiatives like these are a part and parcel of our efforts to help build the prosperity of the Sultanate and advance the living standards of its people.

Reiterating our commitment to the community, the bank had made generous contributions to the Government and continues to support wherever possible, to tackle the COVID-19 pandemic. NBO also pledged to the Ministry of Health the purchase of vital medical equipment for its new field hospital, based at the old Muscat airport site, which was purpose-built for taking care of COVID-19 patients. The bank continuously supported Oman's frontline health workers and their efforts to keep our communities safe. We also joined hands with the Ministry of Education to launch an e-library platform that supports the national efforts of eLearning towards a competitive digital education society. One more key community engagement was joining the Khibrat initiative that focuses on teaching employability skills and work ethics to a total of 600 young people across Oman. Last but not least, marking the Sultanate's 50th National Day, and under the theme 'From the Nation's Bank, to the Nation', NBO pledged its support for a series of programmes focusing on empowering women in an array of sector with the main goal of championing women, while acknowledging their valuable contribution to the advancement of the nation.

AS ALWAYS, NBO IS HERE **FOR OUR TEAM**

Of course, none of us can say how long the COVID-19 situation will last, but we can say this, NBO has always been there for its team of professionals, now and always to keep moving ahead with confidence. We have endured and flourished for decades by taking proactive, decisive action to help ensure our ongoing viability and growth. The actions we have been taking to see our bank safely through the pandemic represent another phase in NBO's continued commitment to following sound business practices that serve the larger interests of our organization and all of its employees and customers. In that spirit, pandemic or not, our commitment to nurturing the professional development of our people remains stronger than ever. Our Academy of Excellence has taken its e-learning offering to the next level with the launch of a mobile app. Our learning and development initiatives have been smoothly operating in the virtual world with a number of engaging training programmes, as well as videos and courses. Applying these skills to their day-to-day routines, our team's technological capabilities enable them to successfully execute our business continuity plan. The team is focused on migrating and coaching our Retail, Corporate and Muzn clients to our digital solutions to enable them to continue managing their finances remotely.

GLOBAL **RECOGNITION**

NBO believes in the power of innovation as a catalyst for greater convenience and accessibility and have continued to utilize technology to create more seamless experiences for its customers, allowing them to leverage the bank's highly efficient products and services to better manage their funds with ease. This approach continues to garner critical acclaim from local, regional, and international institutions.

We were recognised among Forbes Middle East's Top 100 Companies 2020. Our performance in payments was recognised by Wells Fargo, garnering us the Straight-Through-Processing (STP) award for outstanding performance in dollar-denominated fund transfers. We also racked up another win for our Sadara wealth management account, the Highly Acclaimed: Best Private Bank, Middle East Award from Digital Banker's Global Private Banking Innovation Awards 2020. Another recognition that reaffirms our position as a digital leader in the Sultanate, was the Best Mobile Banking App Oman 2020 by International Business Magazine for the second consecutive year. In recognition of its pioneering role in the Islamic finance industry, Muzn has been named the Best Islamic Window - Oman 2020 at the Global Business Outlook Awards. We also received the award for Best Customer Loyalty Initiative and Best Life Insurance Product in the Middle East at The Asian Banker Middle East and Africa Regional Awards Virtual Ceremony 2020. Although these are unprecedented and challenging times, we are confident of our path, as with fortitude and resoluteness, we continue to drive the country's banking sector.

APPRECIATION

On behalf of the Board of Directors, I would like to thank our customers, shareholders, directors, executive management, and all staff of NBO for their support and efforts in implementing the Bank's strategy and in achieving its goals and objectives.

We would also like to express our appreciation to our regulators, the Central Bank of Oman, the Central Bank of the UAE and the Capital Market Authority for their constant support and dedicated efforts to develop Oman's financial industry, especially the banking sector. We reaffirm our commitment to all our customers and shareholders that in 2021 we will continue to focus on areas that represent the best opportunities for NBO, to dedicate all our efforts to achieving a strong and sustainable growth rate, and to deliver on our strategic goals to enhance future returns as well as strengthening the position of Sultanate of Oman and within the region.

Above all, we pay tribute to His Majesty, Sultan Haitham bin Tarik Al Said, for his visionary leadership and under whose wise guidance Oman steadfastly continues on towards sustainable economic and social development.

Above all, stay safe and healthy.

Amal Suhail Bahwan

Chairperson

BOARD MEMBERS' **PROFILES**

MS. AMAL SUHAIL BAHWAN, **CHAIRPERSON**

CHAIRPERSON OF THE EXECUTIVE, NOMINATION AND REMUNERATION COMMITTEE (ENRC)

Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC and has been a Board member since 2016. She has extensive experience in managing companies across the Bahwan Group since 1998.

She is also the Chairperson of Board and Nomination and Remuneration Committee (NRC) of Al Jazeera Steel Products Co. SAOG and Director and Board Remuneration Committee member of Oman Oil Marketing Co. SAOG.

Ms. Amal has a Bachelor's degree in Education and a Master's degree in Administration from the Sultan Qaboos University, Oman.

H.E. SHEIKH ABDULLA BIN ALI BIN JABOR AL THANI, **DEPUTY CHAIRMAN**

MEMBER OF THE EXECUTIVE, NOMINATION AND REMUNERATION COMMITTEE (ENRC).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005. His Excellency is the Chairman of The Commercial Bank (PSQC) in Qatar, a member of the Board of Directors for United Arab Bank, PJSC in UAE and is the owner of Vista Trading Company (Qatar), a partner in Integrated Intelligence Services Company (Qatar), owner of Abdulla bin Ali & Partners for real estate and commerce (Qatar) and owner of Shaza Hotel, Doha (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree, BA in Social Science from Qatar University.

MR. GHASSAN KHAMIS AL HASHAR, **DIRECTOR**

MEMBER OF THE BOARD RISK AND COMPLIANCE COMMITTEE (BRCC) AND THE EXECUTIVE NOMINATION AND REMUNERATION COMMITTEE (ENRC).

Mr. Al Hashar joined NBO Board as a representative of the Public Authority for Social Insurance (PASI) in March 2017. He is currently the Authority's Director of Investments. He has over 22 years of experience in finance and investment management and represents PASI on the boards of numerous public and private companies. He is also a Board Director at National Life & General Insurance Company SAOG and Oman National Investments Development Company SAOC (TANMIA).

Mr. Al Hashar holds a Masters' degree in Finance and Investment Management.

DR. GHAZI NASSER AL-ALAWI, **DIRECTOR**

MEMBER OF THE BOARD AUDIT COMMITTEE (BAC) AND BOARD RISK AND COMPLIANCE COMMITTEE (BRCC).

He has a PhD in Entrepreneurship from the University of Plymouth - UK. He has 5 years' experience in the financial sector where he was the member of Board of directors in Bank Sohar International.

He is also a member of Board of directors in Oman Casting Aluminium, Dunes Oman, Muscat Horizons International and ABI Showtech Oman.

MR. JOSEPH ABRAHAM, **DIRECTOR**

MEMBER OF THE EXECUTIVE, NOMINATION AND REMUNERATION COMMITTEE (ENRC) AND CREDIT COMMITTEE OF THE BOARD (CCB).

Mr. Abraham was appointed as a Board Member in May 2018. Mr. Abraham is the Group Chief Executive Officer of The Commercial Bank as well as Vice-Chairman of the Board of Directors of Alternatif Bank and a Board Director of the United Arab Bank, UAE. He has extensive banking experience across both developed and emerging markets.

Before joining The Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California, and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles, with a successful track record covering general management, corporate banking, strategy, product management, acquisitions and integrations. Mr. Abraham was appointed as a Board Member of Alternatif Bank in December 2016.

MR. HAMAD MOHAMMAD HAMOOD AL WAHAIBI, **DIRECTOR**

CHAIRPERSON OF THE CREDIT COMMITTEE OF THE BOARD (CCB) AND MEMBER OF THE BOARD EXECUTIVE, NOMINATION AND REMUNERATION COMMITTEE (ENRC).

Mr. Hamad Mohammad Al Wahaibi has been a Director of the Bank since March 2014. He has more than 20 years of experience in areas of investment, assets management, business development and financial sector. He has been a director of investment with the Ministry of Defense Pension Fund for the past eight years. Mr. Al Wahaibi is also a member of the boards of Renaissance Services Company and Oman Flour Mills Company.

Mr. Al Wahaibi holds a Masters of Business Administration degree, specializing in Finance. He is a Chartered Financial Analyst (CFA) charter holder, Chartered Alternative Investment Analyst (CAIA) charter holder, and has a Certificate in Investment Performance Measurement (CIPM).

MR. MOHAMMED ISMAIL MANDANI AL EMADI, **DIRECTOR**

MEMBER OF THE CREDIT COMMITTEE OF THE BOARD (CCB).

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014. He is also a member of the Board for The Commercial Bank (PSQC) and a member of the Board of Alternatifbank AS (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held several key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company QSC up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi has a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California, USA.

MRS. NAJAT ALI AL LAWATIA, DIRECTOR

MEMBER OF CREDIT COMMITTEE OF THE BOARD (CCB).

Ms. Najat Ali Al Lawatia has been a Director of the Bank since March 2017. She holds a Bachelor's degree in Accounting. She is the Deputy Director General for Support Services with the Civil Service Employees Pension Fund and has more than 24 years of relevant experience. She has attended various courses in diverse fields of financial management, audit and investments.

Ms. Najat also represented the Civil Services Pension Fund in various listed and private companies and is currently a Director of Oman International Development and Investment Co. SAOG.

MR. FAHAD BADAR, DIRECTOR

CHAIRPERSON OF THE BOARD RISK AND COMPLIANCE COMMITTEE (BRCC) AND MEMBER OF THE BOARD AUDIT COMMITTEE (BAC).

Mr. Fahad Badar has been a Director of the Bank since May 2016. He is also a member of the Board for United Arab Bank, PJSC in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (PSQC) in Qatar spans over 20 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in the international banking, the government and public sector relations and the wholesale banking divisions.

Mr. Badar holds an MBA from Durham University, UK, and a Bachelor of Arts Degree, BA in Banking and Finance from the University of Wales.

MR. RAHUL KAR, DIRECTOR

MEMBER OF THE BOARD AUDIT COMMITTEE (BAC) AND BOARD RISK AND COMPLIANCE COMMITTEE (BRCC).

Mr. Rahul Kar has been a Director of the Bank since April 2016. Mr. Kar is a Chartered Accountant and the Financial Advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Kar is a Director and an Audit Committee member of Al Jazeera Steel Products Co. SAOG. He is also a Director and Nomination & Remuneration Committee member of Oman United Insurance Company SAOG.

MR. SAID HILAL AL HABSI, DIRECTOR

MEMBER OF THE BOARD AUDIT COMMITTEE (BAC).

Mr. Said has an extensive industry experience in finance and investments, and has spent a considerable amount of time in two of the most prestigious Investment Funds in Oman.

Mr. Said is an Investment Director at Oman Investment Authority (OIA), holds MBA and Bachelor of Finance. Previously, he worked for Oman Investment Fund (OIF), and Ministry of Defense Pension Fund holding various senior posts in Investment and Finance fields.

Said is a certified professional accountant. He is also a Board member Salalah Mills SAOG, and Ubhar Capital SAOC.

Al Habsi has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute including, IMD, Columbia Business School and Cambridge University Judge Business School. He has also participated in National Leadership Program that is organized by Royal Diwan Court.

With experience of more than 20 years, Al Habsi has extensive in-depth knowledge of global financial markets and investments.

EXECUTIVE **MANAGEMENT**

GUIDED BY OUR UPDATED STRATEGY, WE FIRMLY BELIEVE **WE ARE BUILDING A STRONG PLATFORM FOR FUTURE GROWTH**

From left to right:

ANANTHRAMAN VENKAT: GM - Chief Financial Officer, **HASSAN ABDUL AMIR SHABAN:** GM - Chief Government Banking Officer, **NASSER MOHAMMED AL HAJRI:** GM - Chief Operating Officer, **ABDULLAH ZAHRAN AL HINAI:** Chief Executive Officer, **AL SAYYID WASFI JAMSHID AL SAID:** GM - Chief Investment Officer, **SALMA SALIM SAID AL JAAIDI:** GM - Chief Risk Officer, **JOHN CHANG:** GM – Chief Retail Banking Officer, **STEPHEN CLAYTON:** GM - Head of International

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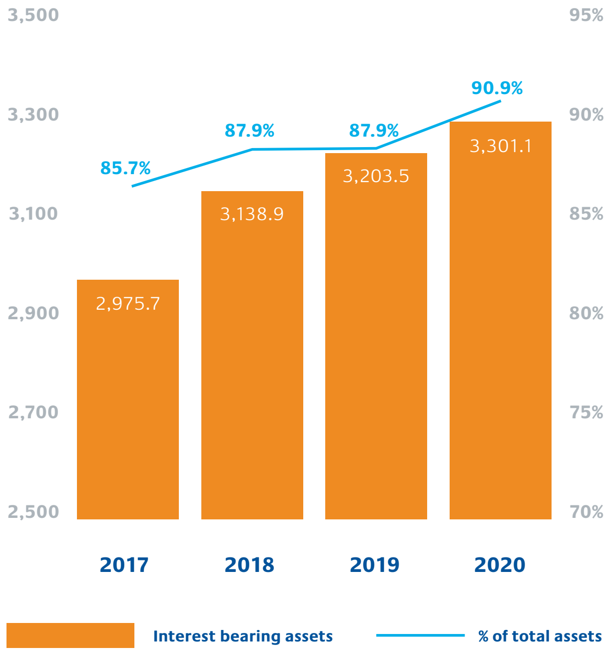
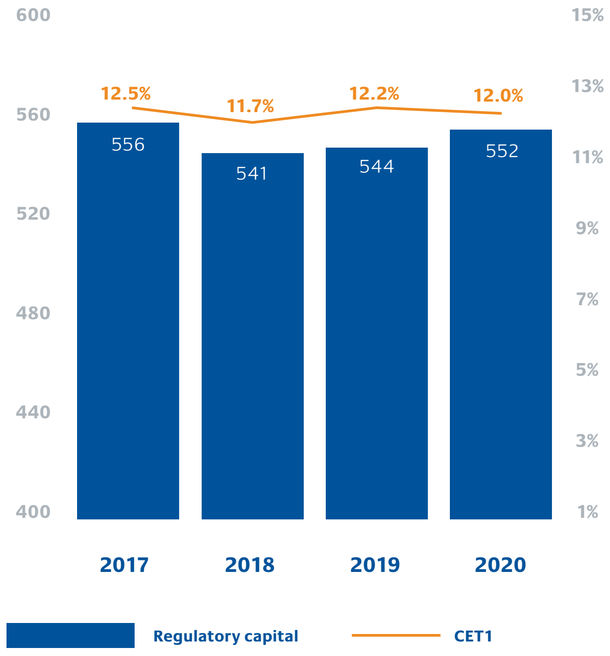
Management Discussion and Analysis Report

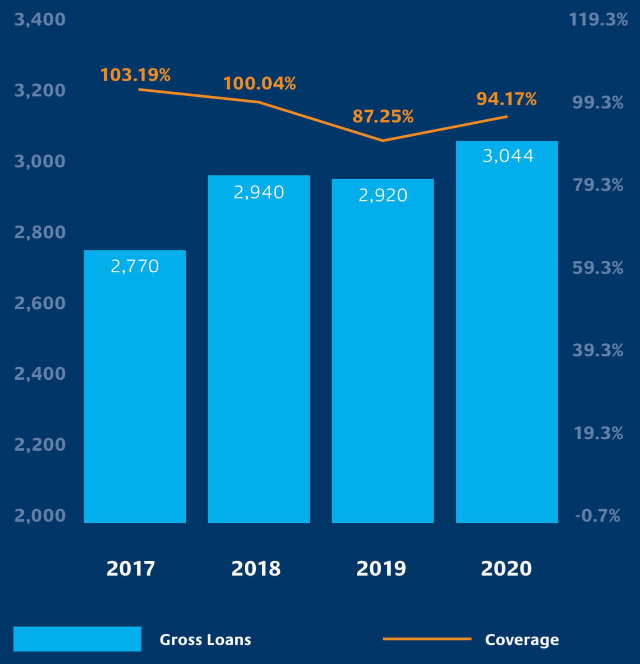
INCREASING **EARNING ASSETS**



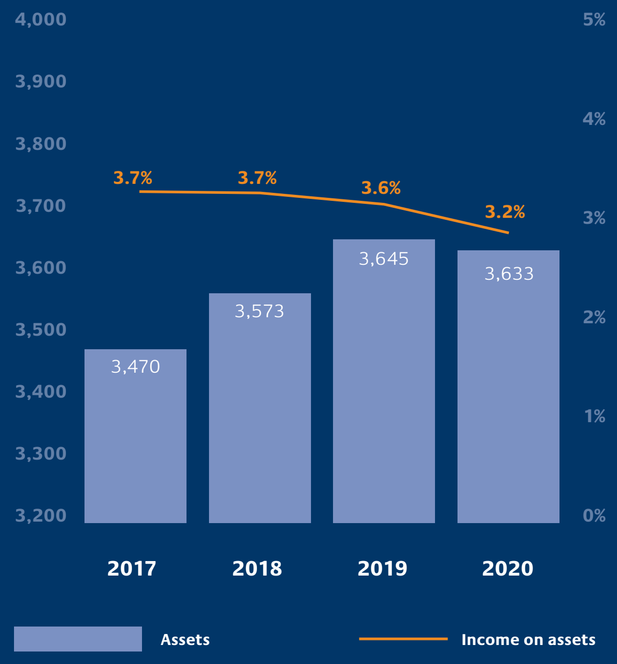
STRONG **CAPITALIZATION**



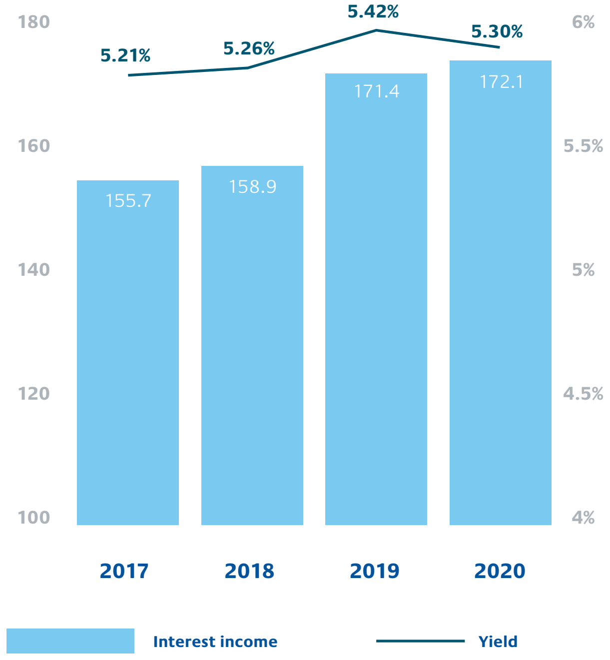
STRONG COVERAGE **ON ASSET QUALITY**



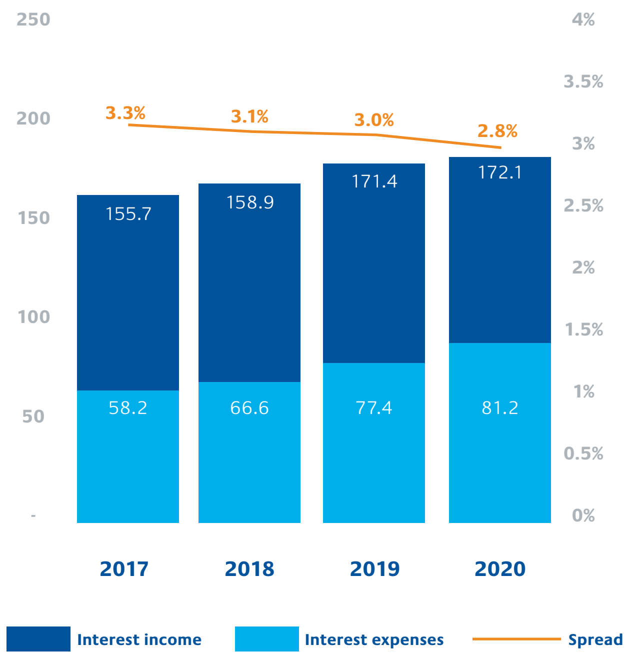
MAINTAINING INCOME **ON ASSETS**



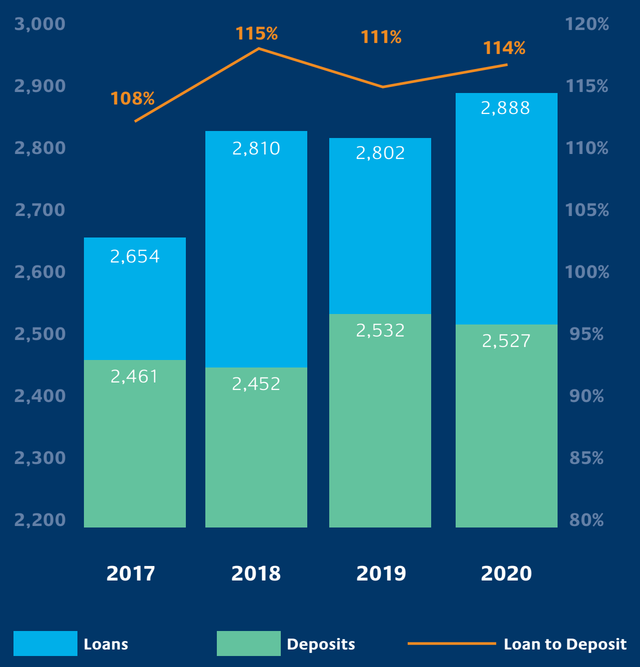
GROWING TOP LINE AND **STABLE YIELDS**



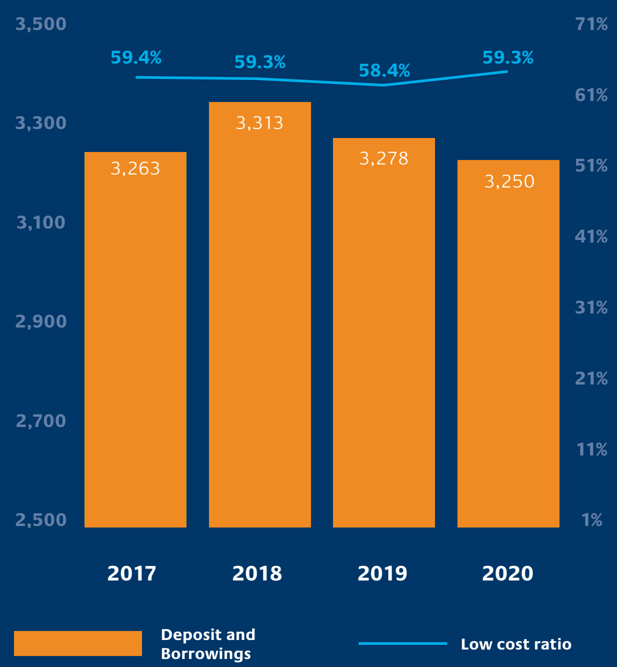
MAINTAINING MARGINS IN A **CHALLENGING ENVIRONMENT**



STABLE ASSET **LIABILITY MIX**



MAINTAINING STABLE FUNDING **AND LOW COST BASE**



WE HAVE STRENGTHENED PERCEPTIONS OF NBO AS A RELIABLE ‘SAFE HAVEN’, **WELL POSITIONED TO CAPITALIZE ON OPPORTUNITIES AS THE ECONOMIC OUTLOOK IMPROVES**

Abdullah Zahran Al Hinai

Chief Executive Officer

MANAGEMENT DISCUSSION **AND ANALYSIS**

AFTER THE CRISIS **COMES GROWTH**

Oman's economy, like the rest of the world, suffered from the impact of the global pandemic in 2020. Yet despite these challenges, NBO's effective response and resilient performance strongly confirmed that the strategy we have been implementing for the past three years is the right strategy to take us forward to a brighter future.

According to projected data, the GDP of Oman declined by 4.3% during 2020. In the first six months alone, GDP fell by over 12%, driven by the spread of COVID-19. The number of visitors fell from 3.3 million in 2019, to around 1.3 million in 2020 and around half a million expats left the country.

As an essential service, the banking sector was able to continue operating throughout the crisis and played a key role in implementing many of the government's policies to support SMEs and corporates.

NBO moved quickly to enable it to continue to meet the rapidly evolving needs of its customers during this challenging period. Notwithstanding the huge impact on revenues throughout the banking sector, the impact of COVID clearly demonstrated that we are on the right path towards robust, sustainable growth.

Like in many countries, when the pandemic hit, the government announced a series of measures to ease the financial pressure on citizens. These included a moratorium on loan repayments and restrictions on certain payments fees, both of which had a significant impact on our income.

Our net profit for 2020 fell to OMR 18.1 million, compared to OMR 51.4 million for 2019, representing a decrease of 64.7%. This was largely due to lower income and higher loan impairment charge. Fee income for the year was OMR 26.1 million, a reduction of 24.1% on last year. Although there was an improvement in quarters three and four, it was still below pre-crisis levels.

Thanks to our prudent portfolio management of the past few years, we have avoided exposure to those sectors most severely affected by the pandemic, such as real estate and construction.

DRIVING A POSITIVE **PERFORMANCE**

Many of the central pillars of our growth strategy, and key focuses for investment over the past three years, such as digital systems, payments, wealth management and customer experience, proved essential in enabling us to deal effectively and efficiently with the demands of the crisis. As with all our peers, certain areas of the business were inevitably hit harder than others, but there were also multiple areas of exceptional performance; positive indications that we are on the right path towards sustainable long-term growth.

We are the only Omani bank with a UAE banking licence. During the last 12 months, our operation in UAE has been rightsized and repositioned as a facilitator for the Oman-UAE trade corridor, with an improved governance framework and positive audit from the UAE central bank. UAE is a core business hub within the regional economy. With significant investment flows between UAE and Oman, our presence in the country provides a unique competitive advantage.

Our Corporate Banking division continued to support its customers as we collectively navigated unprecedented challenges. By maintaining a moderate risk appetite, with a focus on preserving capital and being selective in our lending, we have strengthened perceptions of NBO as a reliable 'safe haven', well positioned to capitalize on opportunities as the economic outlook improves.

SMEs were especially affected by the difficult circumstances. In line with our Customer First ethos, we proactively engaged with SME customers to understand their requirements and support their businesses with across the board repayment deferrals based on customer request, and temporary liquidity support in the form of one-off facilities and temporary banking facilities. Beyond near-term funding, we also provided support and guidance to help customers restructure their businesses, such as deferment, advisory, debt structure and divestments. During this period, we on-boarded 11 new clients in this segment.

We have been highly selective in growing our corporate loan book, focusing only on good quality assets and avoiding sensitive industry sectors. The Corporate division as a whole, and the Asset Quality team in particular, were strengthened to ensure we had the right skills and systems to meet the challenges at hand.

In line with our digital strategy, a key objective was to drastically increase usage of our Corporate Internet Banking (CIB) platform. To overcome the difficulties of undertaking face-to-face training and inductions during the pandemic, we switched to digital on-boarding. This helped us to achieve an 18% growth in new clients, 69% growth in transaction values, and close to 150% increase in the volume of digital transactions. Over 7,000 new customers used our CIB platform in 2020, with a total transaction value of OMR 1.7 billion. We also rolled out an Arabic language version to cater to a wider audience. This growth reflected not only new customers, but also a trend for existing CIB customers to process more of their transactions online than they had previously.

In addition, we launched our B2B online banking platform in 2020, achieving a total transaction value of OMR 549 million. There are now 25 clients using the platform for their regular trade transactions.

> We launched our B2B online banking platform in 2020, **achieving a total transaction value of OMR 549 million**

ISLAMIC BANKING **LEADS THE WAY**

Another area of the bank to enjoy growth in 2020 was Muzn Islamic Banking, the first Islamic banking window in Oman and the first in the Gulf to be headed by a woman. By providing a more focused and unified approach to customers, and closer alignment with our Corporate and Business banking teams, Muzn has continued to deliver positive results, achieving an 18.24% growth in operating profit and 29.71% increase in net profit. Assets have withstood the stress in the market, with little or no deterioration in value and strong visibility of cash flows.

Muzn, which was named 'Best Islamic Window in Oman' by Global Business Outlook, grew its financing book by over 5% year on year, while deposits grew by 27.79%. It also capitalized on new government Sukuk issuances to build the investment portfolio, driving a 53.33% growth in investment income during this period. At the same time, prudent cost management enabled Muzn to reduce its operating expenses by 15.58%.

More effective cross-functional working has enabled Muzn to move from a transaction-focused approach to one that is more advisory led, enabling it to offer holistic solutions based on a deeper understanding of customers' end-to-end requirements. This is helping it move away from the traditional sales-based approach of offering corporate credit, to providing a suite of Islamic financial products and services that address a wider range of requirements, including trade finance, cash management, remittances and investment banking. New products include the Muzn Tijarah Account, which enables corporates, SMEs and entrepreneurs to earn attractive returns on surplus cash balances in their accounts; and Muzn Goods Murabah Finance, which enables customers to finance personal purchases in a Shari'a-compliant manner.

RETAIL LEVERAGES **DIGITAL OPPORTUNITIES**

Two of the priority focuses of our Retail division in recent years have been payments and advisory. Our goal is to dominate the payments market in Oman, in terms of both merchants and consumers, while driving substantial growth in our advisory business. We have invested in the technology, systems and people to help us achieve this - investments which more than proved their worth during 2020.

We expanded our POS merchant network by around 17% to almost 6,000 terminals. We were the first bank in the GCC to accept QR code payments on our POS terminals via mobile wallets belonging to all local banks. This enables users to conduct secure and convenient transactions simply by scanning a QR code from their mobiles, no matter which e-wallet they use.

The increasing uptake of digital payments by customers combined with our increasing acquiring footprint contributed to a growth in our merchant sales volume of 18% compared to 2019, alongside a 27% growth in transactions. The boom in digital payments has seen an overall growth in our e-commerce business from OMR 2 million in 2019 to OMR 35 million in 2020.

Expanded our POS merchant network by around 17% to almost

6,000
TERMINALS

Throughout 2020, our people have been at the forefront of our efforts **to continue serving our customers and meet their rapidly evolving needs**

Recognising the urgency of the new environment, we intensified our focus on digital transformation, with three clear objectives: double adoption of our mobile app; increase take-up of our digital wallets (Pay+ and NBO wallet); and roll-out a network of self-service kiosks for our pre-paid cards.

This approach saw rapid results, with active mobile app users increasing by over 72% and mobile app transactions growing by over 75% compared to last year. Functionality of the app was enhanced to enable customers to manage their debit cards digitally, including card ordering, replacement, renewal, usage limits, PIN change, merchant restriction and country usage, delivering a seamless digital customer experience. These innovations were recognized by several prestigious awards, including 'Best Mobile Banking App Oman' by International Business Magazine and the 'Most Innovative Mobile Banking App Oman' by Global Business Outlook. In addition, we made it easier for customers to contact us and discuss any queries, with the launch of a WhatsApp banking service.

Our Pay+ payment wallet for non-NBO customers was launched in 2019 in partnership with Ooredoo. In 2020, we enhanced its remittance functionality to enable users to send money to India. This will soon be expanded to full global coverage, helping to strengthen financial inclusion in Oman and further extend the reach of our brand.

Overall, we saw a 5% reduction in cash transactions and a 52% increase in e-commerce transactions over 2019, indicating a behavioural change in customer's payment preferences that we do not expect to be reversed.

MEETING CHANGING **CONSUMER NEEDS**

Another behavioural change accelerated in 2020 is the growing savings culture in Oman, which, like most countries in the region, has traditionally been heavily borrowing-focused. Take-up of our personal savings products increased significantly, with growth in 2020 equal to the previous five years combined. This contributed to our low-cost liabilities achieving their highest ever rate, with a resulting positive impact on net interest margins. Our savings deposits increased by 6% in 2020 compared to 2019.

The increased appetite for 'saving for tomorrow' was also evident in the performance of our Wealth Management advisory business. Both our Sadara (affluent) and Mazaya (mass affluent) propositions achieved significant growth in customer numbers, as well as transaction volumes. Year-on-year investment revenues grew by around 69%. Our Systematic Investment Plan (SIP), launched for Sadara customers in 2019, was also expanded to the Mazaya client base. SIP contributed 8% of total investment revenues in 2020, with Mazaya accounting for 12% of those.

Central to the success of these increasingly popular wealth management services is the robust financial needs analysis programme we undertake with every customer, not only during on-boarding, but at regular points throughout the relationship. These analyses ensure we fully understand the needs of every customer and continue to evolve our advice as their needs change, boosting confidence, trust and loyalty in NBO as a secure home for their investments, especially during testing times.

Our proven strength in digital channels, highly experienced relationship managers and continued innovation in products and services helped to strengthen our already solid relationships with the public sector. This includes a number of major government entities that expanded their scope of work with NBO in 2020 and now use our platform for the majority, if not all, of their transactions, including salaries, remittances, tendering, and international payments and purchasing. This involved close coordination with the CBO to enable us to process huge volumes of data at one time – a process that used to take days and involved multiple processing steps.

PLACING PEOPLE AT THE **HEART OF OUR FUTURE**

Throughout 2020, our people have been at the forefront of our efforts to continue serving our customers and meet their rapidly evolving needs. The way the bank was able to respond promptly to the crisis was an affirmation of the quality of the people we have, and another vindication of the validity our long-term strategy.

With customers relying more on telephone communication rather than visiting branches, we expanded our call centre with staff seconded from other areas of the business. The contact centre was subsequently judged to be the second best call centre in EMEA in the Contact Centre World Awards. We also established a remittance helpdesk to support the increased volume of customers using our remittance facility, while support teams were deployed in high-traffic branches to help customers transact via our digital channels.

YEAR-ON-YEAR INVESTMENT REVENUES GREW BY AROUND

69%

As we continue our journey to becoming a fully digitally-enabled bank, we recognise the need to invest in upskilling and training our people. To this end, our Academy of Excellence aims to equip our staff with the skills needed to serve our customers in a digital environment. Over 360 programs were delivered during the year, 82% of which were delivered online. Total training man-days delivered during the year was 8,682 days, at an average of five man-days per employee. We also took on 47 interns and undertook 44 training sessions for government employees.

Our new Talent Strategy uses the latest HR techniques to assess applicants and help them find the most suitable roles within the bank, helping to create a culture of engagement and high performance.

Over 360 programs were delivered during the year, **82% of which were delivered online**

PROUD TO BE A RESPONSIBLE **CORPORATE CITIZEN**

As Oman's first local bank, established in 1973 to support the country's development, we benefit from a special position in the market and a unique platform to reach investors, businesses and trade partners. Our focus is on building a better future for Oman to help its people prosper, both within the Sultanate and beyond its borders. This focus did not waiver in 2020.

We are committed to the business community in Oman and, despite the challenging circumstances, determined to uphold our responsibilities as a leading corporate citizen of this country. As such, we were proud to donate OMR 1 million to the government and we worked directly with local hospitals and front-line healthcare workers to support the nation's response to the pandemic. In addition, we deferred loan repayments for many customers, and we suspended fees for certain types of payments, in line with government policy in this area.

Above all, we prioritised the health and wellbeing of our people and our customers. We rapidly drew up contingency plans for branches that might have to shut due to local virus outbreaks, quickly establishing business continuity centres to enable us to continue meeting the needs of customers securely.

Conscious of our role at the heart of the community, we announced a three-year partnership with not-for-profit foundation Outward Bound Oman, that will see 900 young people develop their personal skills in line with the expectations of Vision 2040, Oman's national development strategy. Also part of our CSR programme, the Outward Bound Oman courses are designed to increase the employability of Omani youth through enhancing their self-awareness and resilience, developing their creative thinking and problem solving skills, and their ability to work effectively with others.

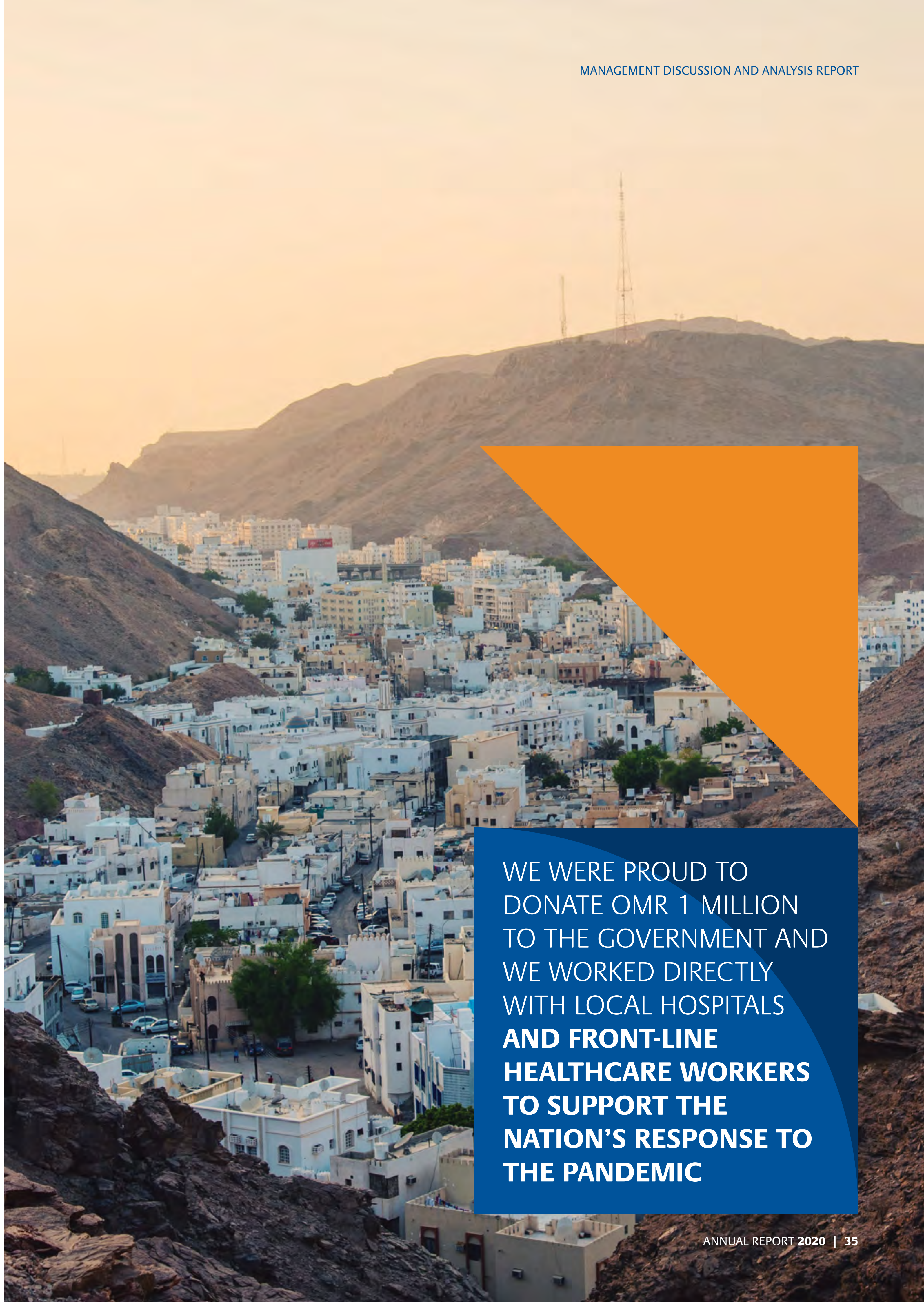
More than 22% of the Omani population is aged between 18 – 23 years. Engaging with the youth population is therefore vital for our long term growth. We have established strong relationships with the leading schools, colleges and universities in Oman. Much of our outreach work in 2020 was conducted remotely, but we continue to prioritise this important market.

Investing in such initiatives, fostering a culture of talent, and celebrating the amazing potential of the next generation, is a core part of our mission. We believe banks are critical players in the future of Oman, particularly in the aftermath of global crises like the pandemic. Such initiatives enable us to support the efforts of His Majesty's government to help Oman recover and cautiously move forward.

With our new CEO, Abdullah Al Hinai, in post from July, combined with the challenges of the pandemic, we took the opportunity to review our current five-year plan. The updated plan was approved by the Board in December 2020. It continues to prioritise long-term stability and profitability. To achieve this, we are focusing on three core themes: Safeguarding Asset Quality, Value Creation, and Sustainability, all centred around one strategic objective: to make NBO the clear market leader.

Building on our existing strategic themes, the updated strategy drills down into more detail and strengthens our focus on key areas. We have been conducting roadshows, visiting branches and regions to explain the strategy to employees and how it relates to their role in the bank.

Guided by our updated strategy, we firmly believe we are building a strong platform for future growth. We are positive our strategy of prudence, value creation and sustainability position us for a swift return to peak performance as the economy recovers in 2021.



WE WERE PROUD TO DONATE OMR 1 MILLION TO THE GOVERNMENT AND WE WORKED DIRECTLY WITH LOCAL HOSPITALS **AND FRONT-LINE HEALTHCARE WORKERS TO SUPPORT THE NATION'S RESPONSE TO THE PANDEMIC**

3

Corporate Governance Report

KPMG LLC
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Sultanate of Oman
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REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

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

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

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

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

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

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

We report our findings below:

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

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

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

KPMG

16 March 2021

Ravikanth Petluri

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

CORPORATE **GOVERNANCE REPORT – 2020**

Corporate governance deals with the way companies are managed and led. It defines the roles of the Directors and formalizes the internal control process within the institution.

The Board of Directors of National Bank of Oman (NBO, or the Bank) supports the fostering of a healthy governance culture at the Bank. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures and confirm that the Bank applies the principles set out in the Capital Market Authority (CMA) Code of Corporate Governance (the Code) as amended for Muscat Stock Exchange Company (MSEC) listed companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO) and the new Commercial Companies Law (CCL) of Oman which came into effect in April 2019.

THE BANK RECEIVED THE FOLLOWING AWARDS AND ACCOLADES DURING 2020:

FORBES
The middle east's top 100 companies

BEST CONTACT CENTER LEADER
EMEA

GLOBAL PRIVATE BANKING INNOVATION AWARDS
Best Private Bank

INTERNATIONAL BUSINESS BANKING AWARDS
Best Mobile App

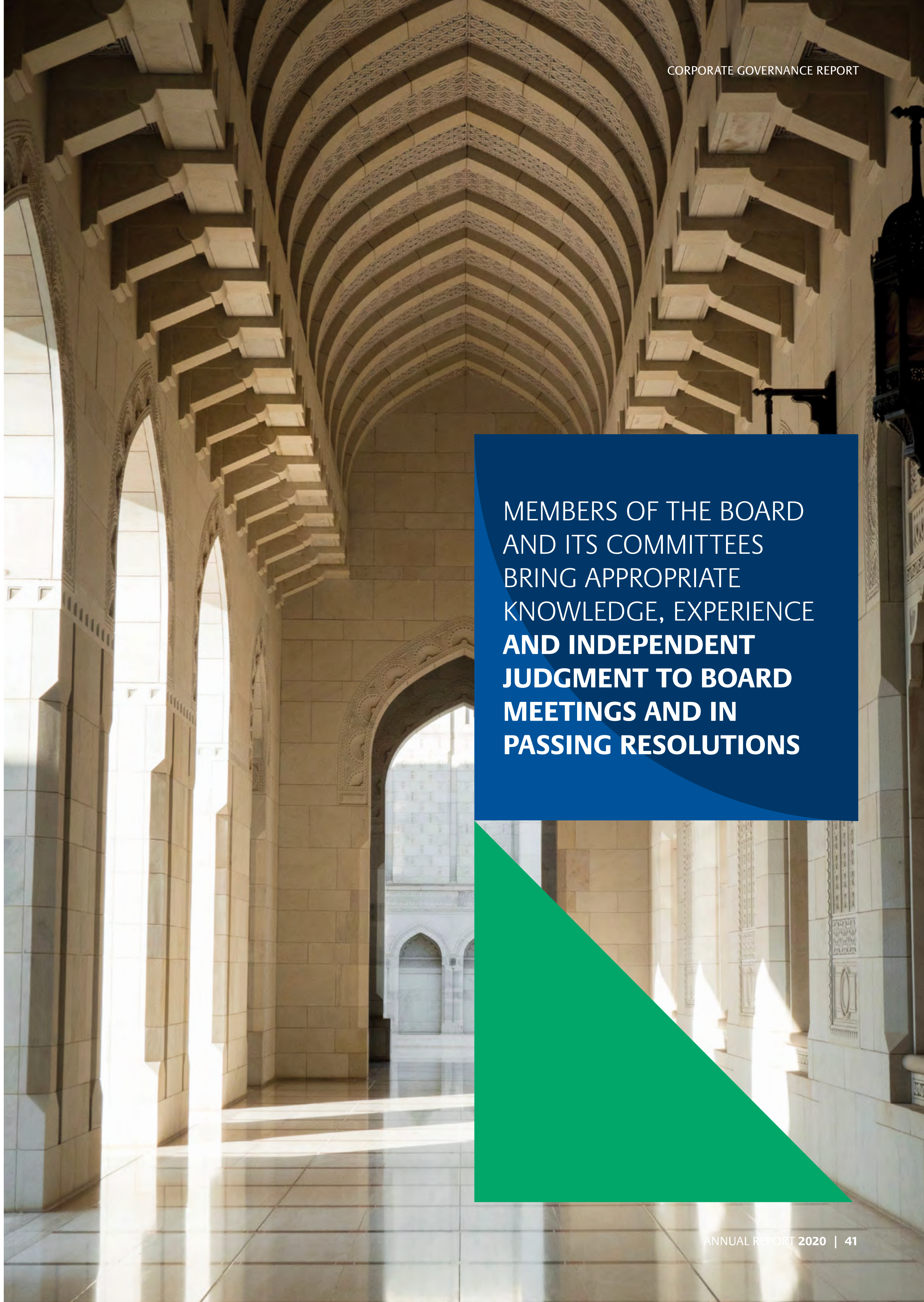
GBO (GLOBAL BUSINESS OUTLOOK)
Best Islamic Window

GBO
Most Innovative Mobile App Oman

THE ASIAN BANKER
Best Life Insurance Product in the Middle East

THE ASIAN BANKER
Best Loyalty Initiative in the Middle East

In accordance with the directives of the CMA Code, this corporate governance report is included **separately in the annual report, which is duly certified by the statutory auditors.**



MEMBERS OF THE BOARD AND ITS COMMITTEES BRING APPROPRIATE KNOWLEDGE, EXPERIENCE **AND INDEPENDENT JUDGMENT TO BOARD MEETINGS AND IN PASSING RESOLUTIONS**

BOARD OF DIRECTORS

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include approving the business objectives of the Bank, approving the strategies and policies for achieving these objectives, and continually reviewing the performance of the Bank in relation to its stated objectives and adherence to policies.

APPOINTMENT OF DIRECTORS

The Board comprises 11 members who were elected by the shareholders in May 2020 for a period of three years. The current term of all the Directors will expire at the end of March 2023.

PROCESS OF NOMINATION OF THE DIRECTORS

The nomination of Directors is as per Articles 6 of the Bank's Articles of Association and also in accordance with CBO, CMA, Ministry of Commerce, Industry and Investment Promotion (MOCIIP), CCL and MSEC regulations. The Executive, Nomination and Remuneration Committee (ENRC) reviews the appropriate skills and characters required of the Board members and recommends suitable names to the shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether the candidate is recommended by the Board or otherwise.

CHARACTERISTICS AND CORE COMPETENCY OF THE BOARD

Members of the Board and its committees bring appropriate knowledge, experience and independent judgment to Board meetings and in passing resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the Executive and Senior Management of the Bank.

INFORMATION GIVEN TO THE BOARD

The Directors are given appropriate and timely information so they can maintain full and effective control over strategic, financial, operational, risk, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank in an induction pack and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

COMPOSITION OF THE BOARD

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is the Sultanate of Oman or is a Chairman of more than two such companies.

The following tables show the position of each of the current Board members in line with the Code's requirements:

Table (1)

Name of Director	Representing	Category of the Director*
Ms. Amal Suhail Bahwan – Chairperson	Suhail Bahwan Group Holding - Equity Investor	NEX-NIND
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	The Commercial Bank - Equity Investor	NEX-NIND
Mr. Hamad Mohammed Al Wahaibi – Director	Himself	NEX-IND
Mr. Mohd Ismail Mandani Al Emadi – Director	Himself	NEX-NIND
Mr. Rahul Kar – Director	Himself	NEX-IND
Mr. Fahad Abdul Rahman Badar – Director	Himself	NEX-NIND
Mr. Ghassan Khamis Ali Al-Hashar – Director	Public Authority for Social Insurance - Equity Investor	NEX-IND
Mrs. Najat Ali Al Lawatia – Director	Civil Service Pension Fund - Equity Investor	NEX-NIND
Mr. Joseph Abraham	Himself	NEX-NIND
Mr. Said Hilal Al Habsi	Himself	NEX-IND
Dr. Ghazi Nasser Al Alawi	Himself	NEX-IND

*NEX: Non-Executive Director, IND: Independent, NIND: Non-Independent

As per the CMA guidelines, five Board members are currently considered as independent (which is more than one third of the Board) as per the required minimum number of independent directors as stated in the Code.

Table (2)

Name of the Director	Other Board Committees Membership*	No. of other S.A.O.G Boards memberships	No. of Board meetings attended	Attended last AGM on 25th March 2019
Ms. Amal Suhail Bahwan - Chairperson	ENRC	3	9	Yes
HE Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairperson	ENRC	NIL	9	Yes
Mr. Mohd Ismail Mandani Al Emadi	CCB	NIL	9	Yes
Mr. Hamad Mohammed Al Wahaibi	CCB / ENRC	2	9	Yes
Mr. Rahul Kar	BAC / BRCC	2	9	Yes
Mr. Fahad Badar	BRCC / BAC	NIL	9	Yes
Mr. Ghassan Al-Hashar	ENRC / BRCC	1	9 (1 by Proxy)	Yes
Mrs. Najat Al Lawatia	CCB	1	8	Yes
Mr. Joseph Abraham	ENRC / CCB	NIL	9	Yes
Mr. Said Hilal Al Habsi	BAC	NIL	5	N/A*
Dr. Ghazi Nasser Al Alawi	BAC/BRCC	NIL	5	N/A*
Sayyida Rawan Ahmed Al Said	N/A**	N/A**	3	Yes
Sheikh Rashid Al Saadi	N/A**	N/A**	2	No

* Not a member of the Board at the time
** No longer a Board Member /left the Board
ENRC: Executive, Nomination and Remuneration Committee / BAC: Board Audit Committee / CCB: Credit Committee of the Board / BRC: Board Risk Committee.

THE BOARD
COMPRISES OF
11
MEMBERS

ELECTED BY THE SHAREHOLDERS
IN MAY
2020

FOR A PERIOD OF
3 YEARS

NUMBER AND DATES OF BOARD MEETINGS

NBO held 9 Board meetings during 2020: January 27, February 23, March 11, April 14, May 17, June 23, July 28, October 28, and November 30, 2020. The maximum interval between two meetings was 92 days. This is in compliance with the current regulations, which require meetings to be held within a maximum time gap of four months.

REMUNERATION TO BOARD AND TOP MANAGEMENT

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the currently active top five senior managers of the Bank in 2020 is RO 1,367,884

Staff service contracts are two years for expatriate officers and determined by the prevailing labor laws for Omanis. The notice period is between one to three months for existing contracts.

As all members of the Board are Non-Executive Directors, accordingly no fixed remuneration or performance linked incentives are applicable. The Non-Executive Directors are paid sitting fees and reimbursement of expenses for attending the Board and Committee meetings. In addition to the sitting fees paid, the total remuneration for the Directors in 2020 is RO 150,000 subject to the Annual General Meeting approval proposed to be held on March 28, 2021.

The details of the sitting fees paid or accrued for payment during 2020 are as follows:

Table (3)

Name of Director	Total fees RO
Ms. Amal Suhail Bahwan	10,000*
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	9,750
Mr. Mohammed Ismail Mandani Al Emadi	10,000*
Mr. Hamad Mohammed Al Wahaibi	10,000*
Mr. Rahul Kar	10,000*
Mr. Fahad Badar	10,000*
Mr. Ghassan Al-Hashar	10,000*
Mrs. Najat Al Lawatia	10,000*
Mr. Joseph Abraham	10,000*
Mr. Said Hilal Al Habsi	7,950
Dr. Ghazi Nasser Al Alawi	10,000
Sayyida Rawan Ahmed Al Said	2,850
Sheikh Rashid Al Saadi	3,900
TOTAL	**114,450**

*The total amount of sitting fees that can be paid to a Director during a financial year is RO 10,000 according to current regulations.

Board meetings held in 2020

9

The total training, hotel and travel expenses related to Board Members during 2020 is RO 25,776.400.

BOARD COMMITTEES

As at the end of December 2020, the Board of Directors has four standing committees: Executive, Nomination and Remuneration Committee (ENRC), the Board Audit Committee (BAC), the Board Risk and Compliance Committee (BRCC) and the Credit Committee of the Board (CCB).

BOARD AUDIT COMMITTEE (BAC):

The BAC comprises of four members, three of whom are independent, and one is non-independent. The committee met ten times in 2020.

The composition of the BAC and members' attendance at meetings are given in the table below:

Table (4)

Name	Position	Meetings attended	Remarks
Mr. Said Hilal Al Habsi	Chairperson	7	Joined the committee on 17 May 2020
Mr. Rahul Kar	Member	10	
Mr. Fahad Badar	Member	10	
Dr. Ghazi Al Alawi	Member	7	Joined the committee on 17 May 2020
Mr. Ghassan Khamis Al Hashar	Member	3	Left the committee on 17 May 2020
Sheikh Rashid Al-Saadi	Former Member	3	Left the Board 17 May 2020

The Audit Committee Charter specifies the responsibility and authority of the BAC. It is approved annually by the Board.

The responsibilities of the Committee as specified in the Audit Committee Charter include but are not limited to:

- Provide recommendations to the Board of Directors for putting before the Annual General Meeting for the appointment and removal of external auditors, as well as specifying the fees considering the independence of such auditors.
- Discuss with the external auditors their audit plan and the results of their audit, including whether they have had full access to all relevant documents.
- Approve non-audit services awarded to the external auditors (statutory) prior to commencing the engagement and ensure that their independence is not compromised in any manner, and that such engagements comply with Capital Market Authority Oman (CMA) regulations.
- Review and approve the Audit Division's Charter, annual budget, staffing and their compensation (including bonus) and organization structure of audit division.
- Review and approve the appointment, promotion, replacement, reassignment or dismissal of the Chief Internal Auditor of the bank.
- Review and discuss and approve the overall scope of the annual internal audit plan with the Chief Internal Auditor, including the adequacy of the individual audits, staffing and their full access to all relevant documents.
- Review the effectiveness of the internal audit function, including conformance with the Institute of Internal Auditors' Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- Review and discuss with the Chief Internal Auditor findings of critical importance arising from the internal audits carried out in the period between meetings.
- Review management's responsiveness to internal audit findings and recommendations and assess internal audit effectiveness.
- Review and discuss with management, internal auditors and external auditors the adequacy and effectiveness of the internal control system, including information technology security, accounting and financial controls and the bank's system to monitor and manage business risk, and its legal and ethical compliance programs. They may appoint external consultants if deemed necessary.
- Submit the minutes of all BAC meetings to the Board, or discuss the matters discussed at each committee meeting with the Board.
- Periodically assess and report to the Board of Directors, its own performance against its annual work plan, considering the effective use of committee time, responsiveness to the Board-approved charter, and the effectiveness of relationships and communications with management, auditors and the full Board.
- Review and reassess the charter at least annually and obtain the approval of the Board of Directors.
- Meet with external and internal auditors separately, at least once per annum without the management, to hear their views and to consult them vis-à-vis enhancing the level of corporate governance and compliance.
- Serve as a channel of communication between external auditors and the Board and also internal auditors and the Board.
- Oversee the financial reporting process on behalf of the Board, including review of the annual and quarterly financial statements before publication, review of qualifications/reservations in the draft financial statements and discussion of the accounting principles. In particular, any changes in the accounting policies, principles and accounting estimates in comparison to the previous year, any adoption of new accounting policies, any departure from International Financial Reporting Standards (IFRS) and non-compliance with the disclosure requirements prescribed by regulatory authorities such as CBO, CMA etc., should be critically reviewed and discussed with the management and auditors.
- Ensure that management of the Bank has put in place an appropriate system for the adoption of relevant accounting policies and principles regarding the accuracy and fairness of the financial statements. Against this system, the committee should review the financial statements for any content of fictitious or fraudulent nature.
- Review the details of all proposed related party transactions in line with the Bank's policy (complies with the CMA Code of Corporate Governance) and provide appropriate recommendations to the Board.
- Periodically review internal audit findings on the 'restructured' loans upgraded to 'regular' category for information and provide appropriate directions thereon to the management.
- Review details of any fraud reports presented in line with CBO regulations.

CREDIT COMMITTEE OF THE BOARD (CCB):

The CCB comprises four members. The committee has met 9 times during 2020. The names of the members,

Table (5)

Name	Position	Meetings attended	Remarks
Mr. Hamad Al Wahaibi	Chairperson	8	
Mrs. Najat Ali Al Lawatia	Member	8	
Mr. Mohd Ismail Mandani Al-Emadi	Member	9	
Mr. Joseph Abraham	Member	8	

their positions and their meeting attendance appear in the table below:

The CCB's main responsibilities include but are not limited to:

- Approve and renew credit transactions up to the maximum legal limits of the Bank, including underwriting exposures and sell down targets.
- Review reports of risk assets covering bank wide portfolio trends, including higher risk assets, exposures and other reports at least every quarter.

BOARD RISK AND COMPLIANCE COMMITTEE (BRCC):

The BRCC comprises four members. The committee has met 6 times during 2020. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring, review management of recovery strategies of problem loans and adequacy of provisioning. It is also responsible for reviewing, assessing and monitoring the Bank's compliance activities and

BRCC sets the policy on all risk issues and maintains oversights **of all Bank risks and Compliance Programmes**

overall performance with respect to key legislative and regulatory requirements.

The names of the members of the BRCC, their positions

Table (6)

Name	Position	Meetings attended	Remarks
Mr. Fahad Badar	Chairperson	6	
Mr. Ghassan Khamis Al Hashar	Member	6	
Mr. Rahul Kar	Member	4	Joined the committee on 17 May 2020
Dr. Ghazi Nasser Al Alawi	Member	4	Joined the committee on 17 May 2020
Ms. Amal Suhail Bahwan	Member	2	Left the committee on 17 May 2020
Sheikh Rashid Al-Saadi	Former Member	1	Left the Board on 17 May

and their meeting attendance appear in the table below:

The responsibilities of the BRCC, as specified in the Terms of Reference, include but are not limited to:

The Committee sets the policy on all risk issues and maintains oversight of all Bank risks and Compliance Programme through the Management Risk Committee (MRC) and Compliance Management Committee (CMC). More specifically, the key responsibilities of the Committee are:

a. Approval of new policies of the Bank and periodic review of existing policies.
b. To establish an appropriate credit risk environment.
c. To develop appropriate operational risk management.
d. To consider the strategic risks facing the Bank and refer suggestions for mitigating such risks to the full Board.
e. To maintain oversight of interest rate risk, the bank's balance sheet and income risks.
f. Management of liquidity risk.
g. Management of all other market risks, including foreign exchange.
h. Approval of credit loss write-offs that are over the limits prescribed for the management.
i. Management of people risk.
j. Overseeing information security risk and business continuity risk.
k. Review management of recovery strategies of problem loans and adequacy of provisioning.
l. Formulation and review of the key risk appetites of the Bank.

Additionally, the BRCC's responsibilities include but are not limited to:

1. Build and promote compliance culture.
2. Review, assess and monitor the Bank's compliance activities and overall performance with respect to key legislative and regulatory requirements.
3. Discuss with senior management the outcome of the Monitoring & Reviews program in assessing the overall adequacy and effectiveness of the Bank's legal, regulatory and ethical compliance framework.
4. Review significant compliance risk areas and the steps management has taken to monitor, control, and report such compliance risk exposures.
5. Highlight key concerns related to CBO examination reports and discuss status of issues raised.
6. Review the implementation of Risk-based approach for a robust and effective Anti-Money Laundering and countering financing of terrorism (AML/CFT) Programme.

1. Specific responsibilities of the BRCC include:

a. Recommend the risk strategy of the Bank, including but not limited to credit strategy, for Board approval.
b. Recommend the risk charter of the Bank for Board approval and review the charter annually.
c. Set a high-level bank-wide risk policy framework within the segments of credit, market, operational, reputational, legal, and strategic and accounting risks.
d. Establish risk tolerance levels and portfolio limits, including limits associated with industry sector, geography, asset quality and others, as appropriate.
e. Monitor the enterprise-wide dashboard of risk through the MRC.
f. Review and assess the performance of MRC and the Risk Group in monitoring and controlling all risk to ensure that risk strategies and policies approved by the Board are adhered to and implemented.
g. Direct oversight over regulatory and legal compliance through the MRC and CMC.
h. Regularly review stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and that predicted by the risk measures.
i. Monitor compliance of various risk parameters by business lines.
j. Approval and annual review of all asset and liability product strategies to include but not be restricted to: all retail lending products and deposit products, treasury and investment products and any other non-standard products relating to corporate banking.
k. Direct oversight over specific credit policy issues including but not limited to:
   - Credit rating models, country limits, concentration issues, loan review mechanism and findings classification policy for loans and provisioning policy.
   - Approval of new product strategies/initiatives having credit implications for the Bank.
   - Review of appropriateness of credit authorities and delegations to management.
   - Periodic review of the Bank's credit risk rating methodology and appropriateness of risk ratings.
l. Endorse the ICAAP document for the approval of the Board.
m. Review the Corporate Governance Report.

EXECUTIVE, NOMINATION & REMUNERATION COMMITTEE OF THE BOARD (ENRC)

The ENRC comprises five members and met 5 times during the year 2020.

Table (7)

Name	Position	Meetings attended	Remarks
Ms. Amal Suhail Bahwan	Chairperson	5	
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairperson	Member	5	
Mr. Hamad Mohammed Al Wahaibi	Member	4	
Mr. Joseph Abraham	Member	5	
Mr. Ghassan Al Hashar	Member	3	Joined the committee on 17 May 2020
Sayyida Rawan Ahmed Al Said	Former Member	1	Left the Board on 17 May 2020

The names of the ENRC members, their positions and their meeting attendance appear in the table below:

The main responsibilities of the ENRC as specified in the Terms of Reference include but are not limited to:

- Develop the long-term strategy of the Bank based on economic and market conditions and the Board's vision and recommend it for Board approval.
- Review the Bank's overall strategy and monitor implementation and execution.
- Review the performance of the Bank against approved strategy and budgets.
- Review and recommend for Board approval the Bank's annual budgets and business plans, including all operating and capital expenditure budgets of the Bank in line with the long-term strategy and changes in economic, market and regulatory environments.
- Review reports and analysis of the Bank's financial and operating performance and evaluate key performance indicators against their accompanying strategies.
- Review the performance of the Investment Banking function, including all investments reports.
- Review and recommend to the Board the Bank's proposals for capital raising plan.
- Review and approve the Banks dividend policy and recommend to the Board the proposed dividend payout.
- Review and approve the Bank's brand vision.
- Review and approve the Bank's human resources manual and policy and the Bank's compensation policy and bonus plan.
- Be responsible for setting the Bank's remuneration framework for management and staff as per the Bank's compensation policy and bonus plan and ensure its proper implementation.
- Review prevailing compensation and benefits and ensure consistency with market trends as per the Bank's compensation policy and bonus plan in accordance with regulatory guidelines.
- Review, approve and amend policies related to employee reward and performance-related incentive plans and assume the function and responsibilities of the Remuneration Committee as specified in the Bank's compensation policy, as approved by the Board.
- Handle appointment and movement of key executives in the Bank from the reward level Assistant General Manager and above.
- Review and approve major changes in the Bank's organizational structure at the level of divisional heads and above.
- Have specific responsibility to recommend for Board approval, and to review and update as necessary, a general strategy and policies for the acquisition, ownership and development of the Bank's properties.
- Approve the acquisition and sale of any property required for the business of the Bank.
- Approve the appointment of construction companies and consultants for the Bank's head office and agree the terms of any construction contract (including any variation order), consultancy or property or facilities management contract relating to any property owned by the Bank.
- Oversee the performance and implementation of any property-related projects.
- Propose the annual CSR and sustainability budget to the Board, which shall submit the same to the shareholders in their Annual General Meeting for approval.
- Identify methods of payment for CSR and sustainability initiatives.
- Submit a report at the end of the year to the AGM for ratification of amounts paid to CSR and sustainability initiatives.
- Adopt a transparent method in preparing the nomination policy targeting directors of high competence and caliber, without prejudice to the right of any of the shareholders to stand for election or to nominate whoever they see fit.
- Exert the best efforts to the assist the Bank in formulating clear, credible and accessible policies to inform shareholders about Directors' and executives' remuneration.
- Prepare detailed job descriptions of the role and responsibilities for Directors, including the Chairperson. This will facilitate the orientation of the Directors towards their tasks and roles and appraise their performance.
- Look for and nominate qualified persons to act as interim directors on the Board in the event a seat becomes vacant.

BOARD MEMBERS PROFILES

Ms. Amal Suhail Bahwan, Chairperson

Chairperson of the Executive, Nomination and Remuneration Committee (ENRC)

Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC and has been a Board member since 2016. She has extensive experience in managing companies across the Bahwan Group since 1998.

She is also the Chairperson of Board and Nomination and Remuneration Committee (NRC) of Al Jazeera Steel Products Co. SAOG and Director and Board Remuneration Committee member of Oman Oil Marketing Co. SAOG.

Ms. Amal has a Bachelor's degree in Education and a Master's degree in Administration from the Sultan Qaboos University, Oman.

H.E. Sheikh Abdulla Bin Ali Bin Jabor Al Thani, Deputy Chairperson

Member of the Executive, Nomination and Remuneration Committee (ENRC)

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the Chairman of The Commercial Bank (PSQC) in Qatar, a member of the Board of Directors for United Arab Bank, PJSC in UAE and is the owner of Vista Trading Company (Qatar), a partner in Integrated Intelligence Services Company (Qatar), owner of Abdulla bin Ali & Partners for real estate and commerce (Qatar) and owner of Shaza Hotel, Doha (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree, BA in Social Science from Qatar University.

Mr. Hamad Mohammad Hamood Al Wahaibi, Director

Chairperson of the Credit Committee of the Board (CCB) and member of the Board Executive, Nomination and Remuneration Committee (ENRC)

Mr. Hamad Mohammad Al Wahaibi has been a Director of the Bank since March 2014. He has more than 20 years of experience in areas of investment, assets management, business development and financial sector. He has been a director of investment with the Ministry of Defense Pension Fund for the past eight years. Mr. Al Wahaibi is also a member of the boards of Renaissnce Services Company and Oman Flour Mills Company.

Mr. Al Wahaibi holds a Masters of Business Administration degree, specializing in Finance. He is a Chartered Financial Analyst (CFA) charter holder, Chartered Alternative Investment Analyst (CAIA) charter holder, and has a Certificate in Investment Performance Measurement (CIPM).

Mrs. Najat Ali Al Lawatia, Director

Member of Credit Committee of the Board (CCB)

Ms. Najat Ali Al Lawatia has been a Director of the Bank since March 2017. She holds a Bachelor's degree in Accounting. She is the Deputy Director General for Support Services with the Civil Service Employees Pension Fund and has more than 24 years of relevant experience. She has attended various courses in diverse fields of financial management, audit and investments.

Ms. Najat also represented the Civil Services Pension Fund in various listed and private companies and is currently a Director of Oman International Development and Investment Co. (SAOG).

Mr. Ghassan Khamis Al Hashar, Director

Member of the Board Risk and Compliance Committee (BRCC) and the Executive Nomination and Remuneration Committee (ENRC)

Mr. Al Hashar joined NBO Board as a representative of the Public Authority for Social Insurance (PASI) in March 2017. He is currently the Authority's Director of Investments. He has over 22 years of experience in finance and investment management and represents PASI on the boards of numerous public and private companies. He is also a Board Director at National Life & General Insurance Company SAOG and Oman National Investments Development Company SAOC (TANMIA).

Mr. Al Hashar holds a Masters' degree in Finance and Investment Management.

Mr. Mohammed Ismail Mandani Al Emadi, Director

Member of the Credit Committee of the Board (CCB)

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014. He is also a member of the Board for The Commercial Bank (PSQC) and a member of the Board of Alternatifbank AS (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company QSC up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi has a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California, USA.

Mr. Rahul Kar, Director

Member of the Board Audit Committee (BAC) and Board Risk and Compliance Committee (BRCC)

Mr. Rahul Kar has been a Director of the Bank since April 2016. Mr. Kar is a Chartered Accountant and the Financial Advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Kar is a Director and an Audit Committee member of Al Jazeera Steel Products Co. SAOG. He is also a Director and Nomination & Remuneration Committee member of Oman United Insurance Company SAOG.

Mr. Fahad Badar, Director

Chairperson of the Board Risk and Compliance Committee (BRCC) and member of the Board Audit Committee (BAC).

Mr. Fahad Badar has been a Director of the Bank since May 2016. He is also a member of the Board for United Arab Bank, PJSC in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (PSQC) in Qatar spans over 20 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in the international banking, the government and public sector relations and the wholesale banking divisions.

Mr. Badar holds an MBA from Durham University, UK, and a Bachelor of Arts Degree, BA in Banking and Finance from the University of Wales.

Mr. Joseph Abraham, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and Credit Committee of the Board (CCB)

Mr. Abraham was appointed as a Board Member in May 2018. Mr. Abraham is the Group Chief Executive Officer of The Commercial Bank as well as Vice-Chairman of the Board of Directors of Alternatif Bank and a Board Director of the United Arab Bank, UAE. He has extensive banking experience across both developed and emerging markets.

Before joining The Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California, and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles, with a successful track record covering general management, corporate banking, strategy, product management, acquisitions and integrations.
Mr. Abraham was appointed as a Board Member of Alternatif Bank in December 2016.

Mr. Said Hilal Al Habsi

Member of the Board Audit Committee (BAC)

Mr. Said has an extensive industry experience in finance and investments, and has spent a considerable amount of time in two of the most prestigious Investment Funds in Oman.

Mr. Said is an Investment Director at Oman Investment Authority (OIA), holds MBA and Bachelor of Finance. Previously, he worked for Oman Investment Fund (OIF), and Ministry of Defense Pension Fund holding various senior posts in Investment and Finance fields.

Said is a certified professional accountant. He is also a Board member Salalah Mills SAOG, and Ubhar Capital SAOC.

Al Habsi has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute including, IMD, Columbia Business School and Cambridge University Judge Business School. He has also participated in National Leadership Program that is organized by Royal Diwan Court.

With experience of more than 20 years, Al Habsi has extensive in-depth knowledge of global financial markets and investments.

Dr. Ghazi Nasser Al Alawi

Member of the Board Audit Committee (BAC) and Board Risk and Compliance Committee (BRCC)

He has a PhD in Entrepreneurship from the University of Plymouth - UK. He has 5 years' experience in the financial sector where he was the member of Board of directors in Bank Sohar International.

He is also a member of Board of directors in Oman Casting Aluminum, Dunes Oman, Muscat Horizons International and ABI Showtech Oman.

MANAGEMENT TEAM

The Bank's management structure is headed by the Chief Executive Officer (CEO), whose appointment, functions and package are determined by the Board.

The CEO is supported by the General Managers who lead functional groups in the Bank. The organization chart also includes Divisional Heads of all the direct subordinates of the CEO.

The following table gives details of the top nine senior management officers along with their positions:

Table (8)

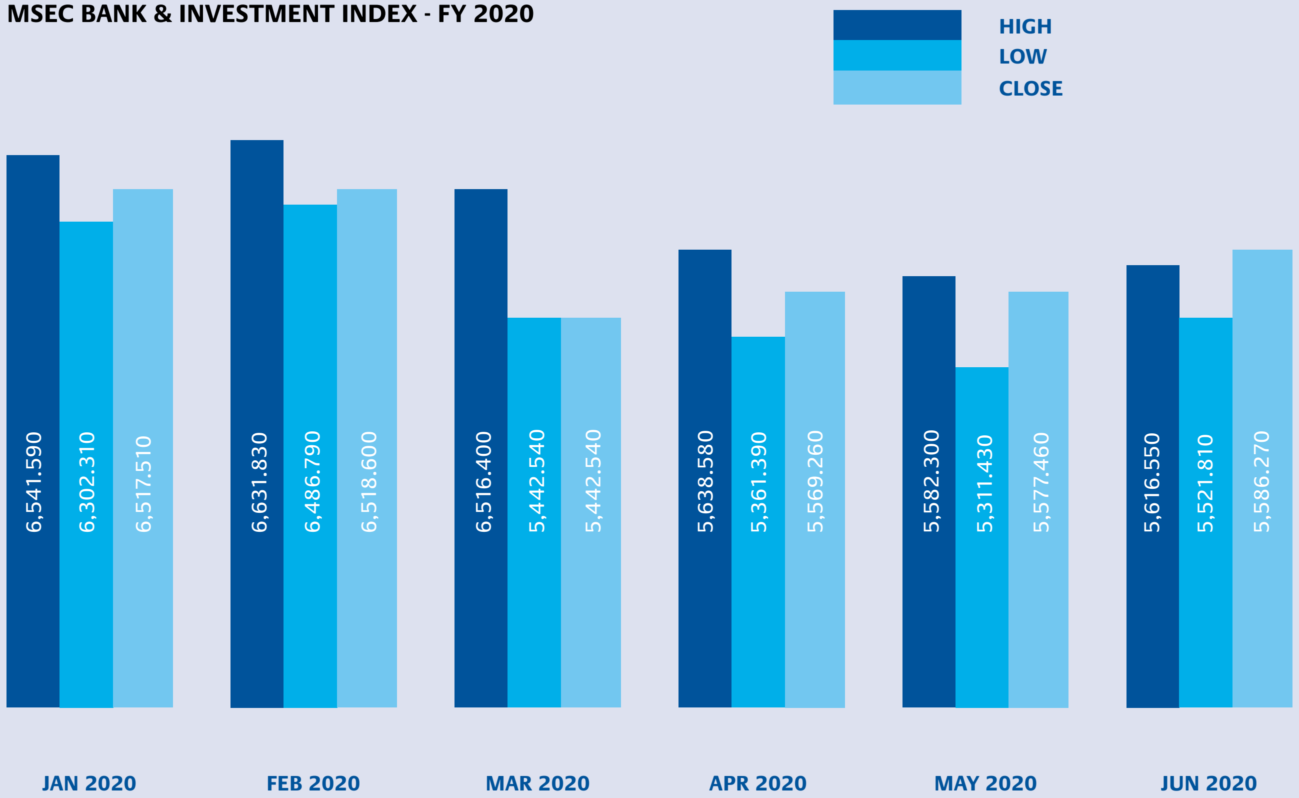
Name	Position
Mr. Abdullah Zahran Al Hinai	Chief Executive Officer (CEO)
Sayyid Wasfi Jamshid Al Said	GM – Chief Investment Officer
Mr. Nasser Mohammed Al Hajri	GM – Chief Operating Officer (COO)
Mr. Ananthraman Venkat	GM – Chief Financial Officer (CFO)
Ms. Salma Salim Said Al Jaaidi	GM – Chief Risk Officer (CRO)
Mr. Hassan Abdul Amir Shaban	GM – Chief Government and Alliance Banking Officer
Mr. Stephen Clayton	GM – Head of International
Mr. John Chang	GM – Chief Retail Banking Officer

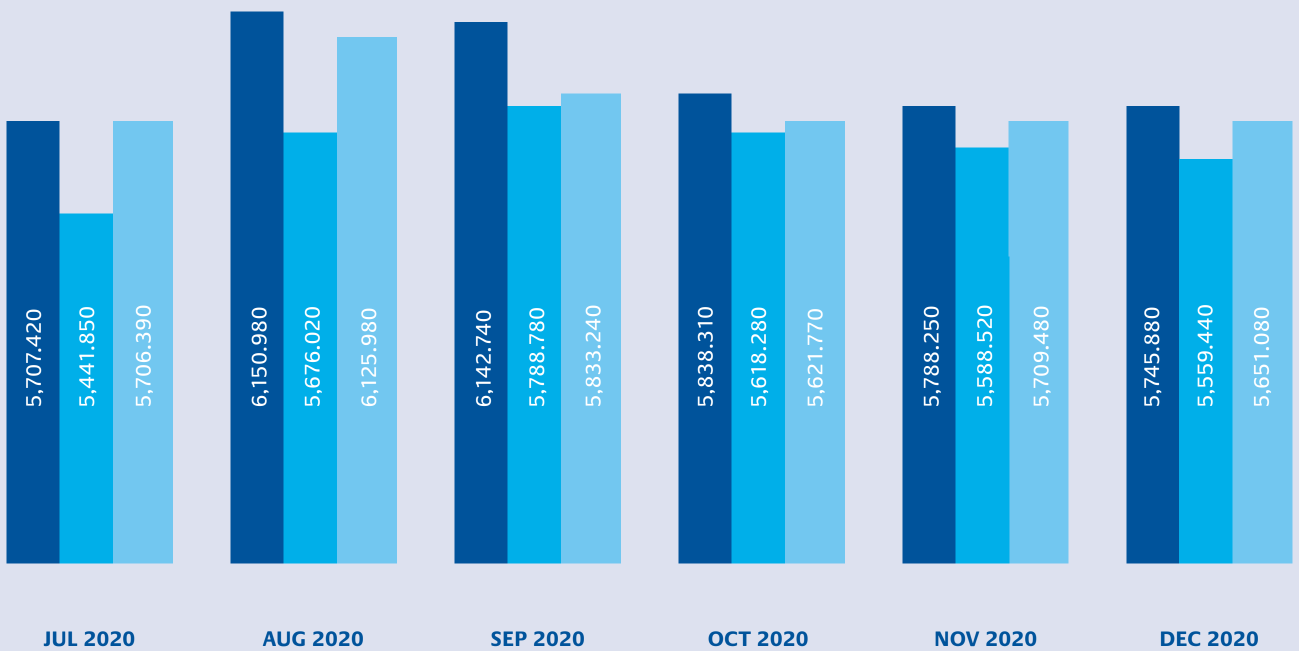
MANAGEMENT TEAM

The following table shows the high, low, and average prices of the Bank's shares and compares the Bank's performance against the broad index of banks and investment companies during 2020.

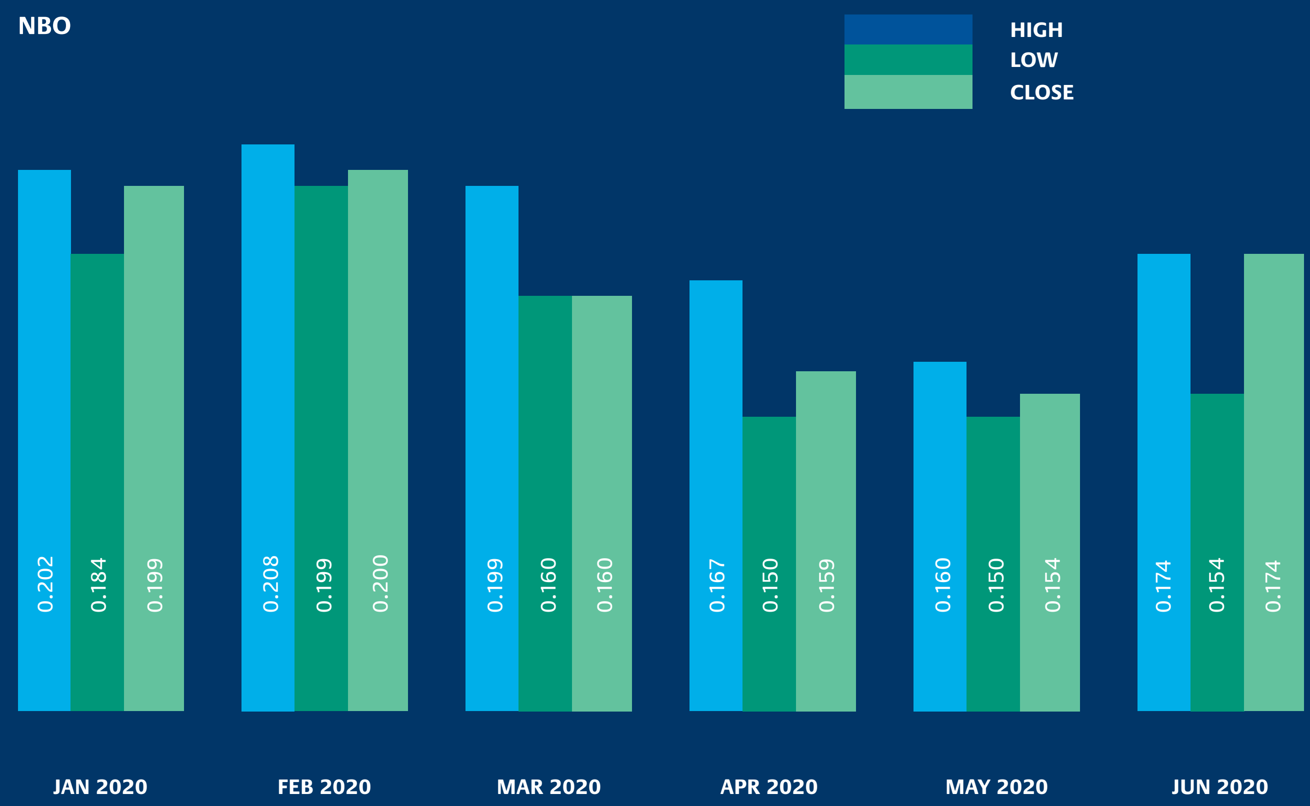
Table (9)

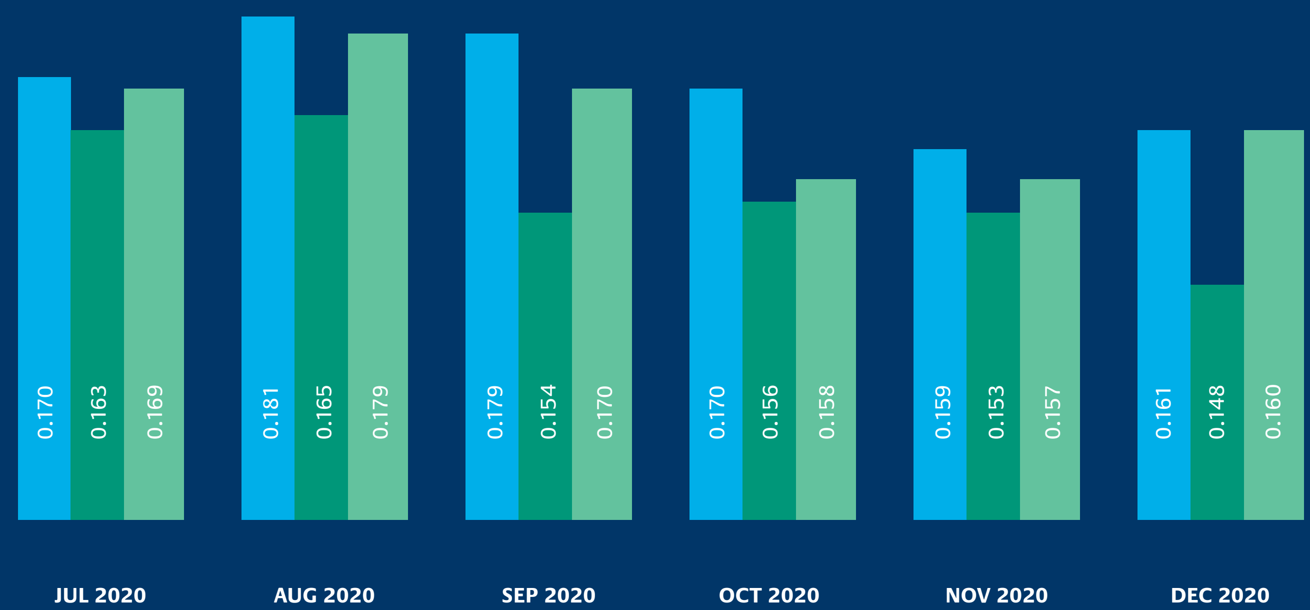
MSEC BANK & INVESTMENT INDEX - FY 2020





NBO





RELATED PARTY TRANSACTIONS

Details of all transactions where a Director or other related parties might have a potential interest are provided to the Board for their review and approval. The interested Director neither participates in the discussions, nor do they vote on such matters.

On a half yearly basis, as of June 30 and December 31 of each financial year, the details of the Bank's related parties are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure.

Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting, along with a statement that transactions are on an arm's length and independent basis and are reasonable.

INTERNAL CONTROL REVIEW

The Board attaches great importance to maintaining a strong control environment and their review covers all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for establishing, maintaining and reviewing a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines and has approved the updated policies including credit, expenditure, disclosure and corporate governance.

The Bank's financial position, and operational and business performance is regularly reported to the Board. The actual performance achieved against budgets and the prior period is reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. They are monitored through compliance with policies and procedures manuals, desk performance instructions and other circulars.

SHAREHOLDERS

Communication with shareholders and investors

The Board is committed to ensure that all material information relating to the Bank's business operations is regularly communicated to its stakeholders and members of the investment community.

The Bank has its own web site, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's web-site address is **www.nbo.om.**

Quarterly results are published and made public. Investor Relations page / Results & Reports page

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the annual report and the summary financial statements are sent by post to all shareholders, along with the notice of the forthcoming Annual General Meeting of the Bank. Shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

The Bank also displays official new releases on its website **https://www.nbo.om/en/Pages/News/Home.aspx** for shareholders, analysts and investors.

DISTRIBUTION OF DIVIDENDS

The distribution of dividends to Bank shareholders during the last five years appears in the table below:

Table (10)

Year	Cash dividend	Bonus shares
2016	15.92%	5%
2017	15%	5%
2018	16%	0%
2019	16.8%	0%
2020	0%	0%

The Board attaches great importance to maintaining a strong control environment and their review covers **all controls, including financial, operational, compliance and risk management**

CORPORATE SOCIAL RESPONSIBILITY (CSR)

During 2020, the Bank distributed donations to the government, charitable organizations and other non-profitable organizations and participated in CSR initiatives totaling OMR 1,041,000. This is within the budget limit of RO OMR 1,041,000 approved by the Annual General Meeting held on 17th May 2020.

Details of the Bank's main donations and CSR initiatives in 2020:

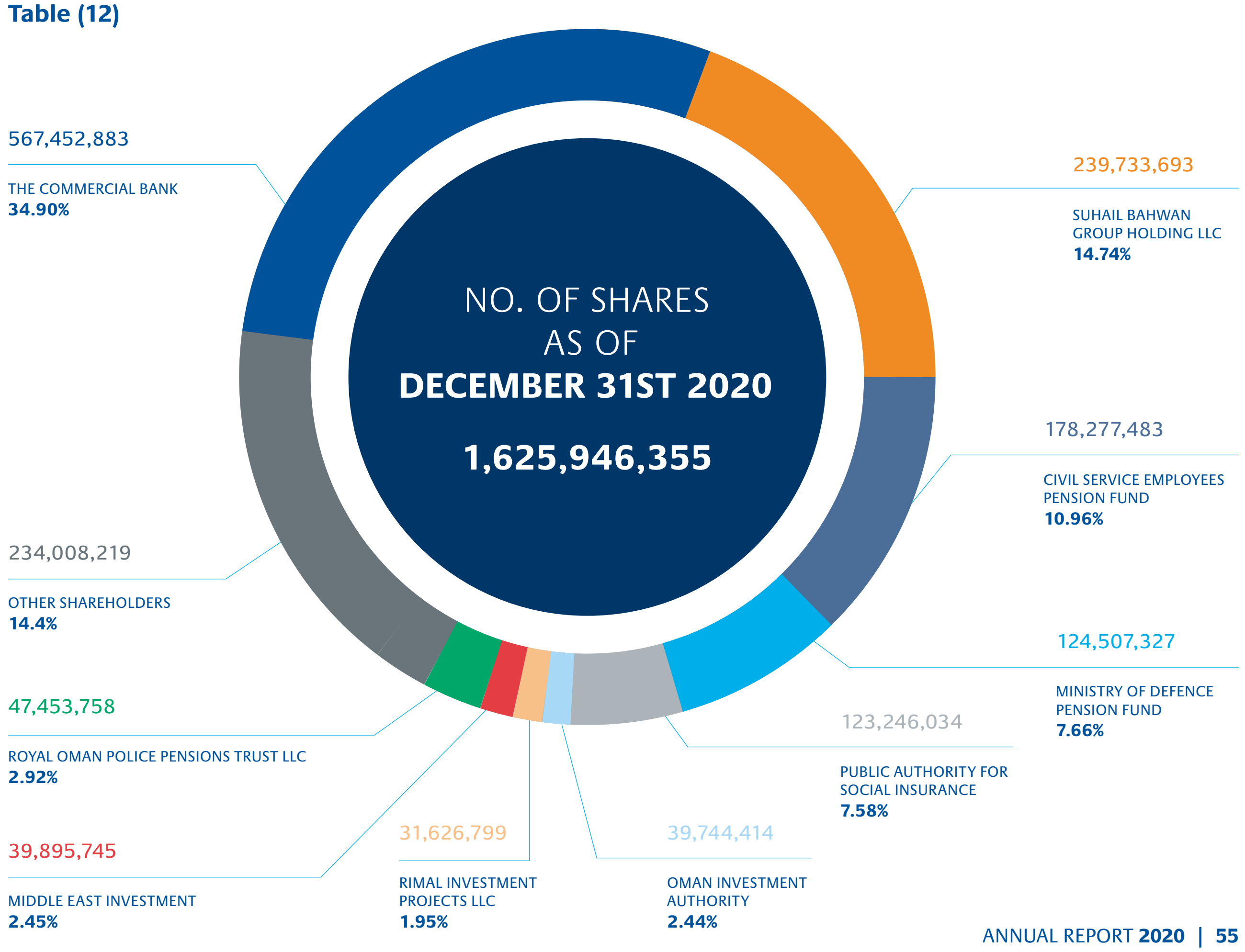
Table (11)

Initiative	Amount (OMR)	Details
COVID relief	709,965	The amount was dedicated to contributing towards the government's efforts in combatting the virus. The amount was split and spent on different initiatives i.e supporting hospitals (Royal Hospital, Al Nahdha Hospital, SQU Hospital, Field Hospital, ROP Hospital) with purchasing necessary equipment, sponsoring the development of the ministry of education's e-library to enable learning from a distance, honoring frontline medical staff
Shahr Al Atta	30,000	Spent on Food Hampers for low-income families, a collaboration with Dar Al Atta for victims of the pandemic, and appreciation tokens for workers in the health sector
National Day	43,745	Supporting local female startups in remote areas in the fisheries and handicrafts industries during the national day month
Outward Bound	67,000	The 'Strength in our youth' courses would focus on building core life skills of 900 young Omani's, from every region of Oman-giving NBO nationwide exposure
NBO scholarships	190,290	NBO announced the launch of a unique scholarship program, enabling 11 students from low-income families to complete their undergraduate degrees at the top Universities in the UK.
TOTAL	**1,041,000**	

DISTRIBUTION OF SHAREHOLDING:

Major shareholders (1% and above)

Table (12)



The shareholding pattern as on 31 December 2020 was:

Table (13)

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	TOTAL SHARES	% OF CAPITAL
7,000,000 and above	15	1,462,173,385	90%
3,000,000 to 6,999,999	16	61,237,698	4%
1,500,000 to 2,999,999	13	28,293,527	2%
500,000 to 1,499,999	36	32,702,899	2%
100,000 to 499,999	123	28,772,797	2%
Below 100,000	949	12,766,049	1%
TOTAL	**1152**	**1,625,946,355**	**100%**

A copy of the Management Discussion and Analysis is circulated as part of this Annual Report.

There are no global depository receipts, warrants or any convertible instruments outstanding.

DETAILS OF NON-COMPLIANCE

CBO circular BM 1134 and Annexure 4 of the Code of Corporate Governance require the Bank to provide details of non-compliance. This includes any penalties, strictures imposed on the Bank by the MSEC / CMA or any statutory authority such as the CBO, on any matter related to capital markets, during the last three years (2017, 2018 and 2019). The Bank has identified the following amounts below paid during the last three years.

As of 2020, the Bank had complied with all relevant regulatory requirements in the last three years with the below exceptions:

During the FY 2020, the bank was penalized RO 4,000 for inadequate provisions against a corporate account. The bank was also penalized RO 50,000 for not fully complying with the AML Law on Counter Money Laundering and Terrorism Financing. Finally, The Bank was also penalized RO 4,000 as it had charged the customers for not maintaining minimum balances though their salary was less than RO 500.

Total penalties: OMR 58,000.

During the FY 2019, the Bank was penalized OMR 4,000 for exceeding the real estate exposure on consolidated basis at 63.5% from the regulatory ceiling of 60%. The Bank was also penalized OMR 38,000 for not fully complying with the AML Law on Counter Money Laundering and Terrorism Financing. Further, the Bank was penalized OMR 10,000 for not complying with regulatory guidelines on the Compliance Function. As the Bank had delayed implementation of the Fraud Risk Management system, a penalty of OMR 4,000 was levied. In addition, due to a technical issue the Bank was delayed in the settlement of some trades, which resulted in a fine of OMR 3,116. Also due to technical issues in the payment system, settlement of payment to Muscat Clearing and Depository was delayed which led to an OMR 260 penalty. In the United Arab Emirates, the bank was penalized AED 300,000 for not achieving Emiratization targets and AED 14,673 for a delay in labour renewals. Total penalties: OMR 92,382.

During the FY 2018, the Bank was penalized OMR 8,000 for not considering CBO's prior approval on structured products and providing access to some of the Banks systems to outsourced contracts. The Bank was also penalized OMR 10,000 for a delay in responding to some customer requests and OMR 30,000 for a delay in fulfilling requirements of the payment system. Regulatory guidelines were not considered for impact analysis and recovering fees from some retail customers, which resulted in a penalty of OMR 8,000. Total penalties: OMR 56,000.

AUDITORS

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance, providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

KPMG PROFILE

Profile Of Statutory Auditors

The KPMG member firm in Oman, along with the UAE member firm, form KPMG Lower Gulf, which consists of 1,300 staff members, including approximately 100 partners and directors. The firm's Oman office was established in 1975. KPMG provide audit, tax and advisory services to a broad range of domestic and international clients across all sectors of business and the economy.

Statutory Audit fees of RO 123,000 has been charged by KPMG for financial year 2020.

Declaration

The Board of Directors declares its liability for preparation of the financial statements in accordance with the applicable standards and rules.

For the year under review, the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the Code's requirements.

The Board of Directors confirms that there are no material issues that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

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Amal Suhail Bahwan

Chairperson of the Board of Directors

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Basel II and III - Pillar III Report 2020

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

Independent Auditors' Report on factual findings to the Board of Directors of National Bank of Oman SAOG in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures and Basel III related disclosures ("the Disclosures") set out on pages 1 to 31 of National Bank of Oman SAOG (the "Bank") as at and for the year ended 31 December 2020. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services No. 4400 applicable to agreed-upon procedures engagements. The Procedures set out in the Circular No. BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1114 dated 17 November 2013 and Circular No. 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and letter BSD/CB/2020/05 dated 3 June 2020.

We report our findings as follows:

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

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the Disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO; and we accept no liability or responsibility to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

16 March 2021

KPMG
KPMG LLC

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

CR No. 1358131
Tax Card No. [illegible]

CAPITAL **STRUCTURE**

The authorised share capital of the bank as at 31 December 2020 is 2,000,000,000 shares of RO 0.100 each.
The issued and paid up capital of the bank as at 31 December 2020 is 1,625,946,355 shares of RO 0.100 each.

The bank has assigned capital for operations in UAE and Egypt, amounts equivalent to RO 40.92 million and RO 19.25 million respectively. These amounts cannot be withdrawn without the approval of the Central Banks of the respective countries. In addition, within Oman, the bank has allocated RO 20.0 million of capital towards the Islamic banking window.

The bank's consolidated capital structure as at close of 31 December 2020, based on Central Bank of Oman's (CBO) guidelines is as follows:

	RO'000
ELEMENTS OF CAPITAL	**AMOUNT**
Tier I Capital	
Local Banks	
Paid-up capital	162,595
Share premium	34,465
Legal reserve	54,198
Retained earnings*	161,911
Common equity Tier 1 before regulatory adjustments	**413,169**
Deduction	
Revaluation reserves / Cumulative fair value gains or losses on available for	
sale instruments"	(10,352)
Common equity Tier 1	**402,817**
Additional Tier 1 Capital	
Tier 1 Perpetual Bond	115,500
Tier I capital after all deductions	**518,317**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	632
General loan loss provision/General loan loss reserve	33,307
Total Tier II Capital	**33,939**
TOTAL REGULATORY CAPITAL	**552,256**

CAPITAL **ADEQUACY**

QUALITATIVE DISCLOSURES:

The ultimate objectives of capital management are three fold:

- Ensure stability of the bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily)
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business

The capital management plan envisaged for the bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy of the bank aims to ensure that on a risk adjusted return on capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on interest rates, which are followed.

The Asset Liability Committee (ALCO) reviews and monitors capital adequacy and requirement for capital on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO's review every month. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

QUALITATIVE DISCLOSURES:

A set of triggers are followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. This document addresses through objective and subjective evaluation, the adequacy of capital after considering the impact of additional risks, such as, Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Strategic Risk and Compliance Risk as well as various levels of stress tests. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment.

Position as at 31 December 2020	RO'000
DETAILS	**AMOUNT**
Tier I capital (after supervisory deductions)	**518,317**
Tier II capital (after supervisory deductions & upto eligible limits)	**33,939**
Risk Weighted Assets (RWAs) – Banking Book	**3,072,484**
Risk Weighted Assets (RWAs) – Operational Risk	**233,953**
TOTAL RISK WEIGHTED ASSETS (RWAS) – BANKING BOOK + OPERATIONAL RISK	**3,306,437**
Minimum required capital to support RWAs of banking book and operational risk	405,039
Minimum required capital comprises of;	
i) Tier I capital	371,100
ii) Tier II capital	33,939
Balance Tier I capital available for supporting Trading Book	147,217
Risk Weighted Assets (RWAs) – Trading Book	**52,171**
Total capital required to support Trading Book	6,391
Minimum Tier I capital required for supporting Trading Book	1,821
TOTAL REGULATORY CAPITAL	**552,256**
TOTAL RISK WEIGHTED ASSETS – WHOLE BANK	**3,358,608**
BIS CAPITAL ADEQUACY RATIO	**16.4**

BASEL III DISCLOSURES:

In compliance with CBO circular BM 1114 dated 17 November 2013; certain mandatory capital adequacy disclosures are made below:

Position as at 31 December 2020			RO'000
DETAILS	**GROSS BALANCE (BOOK VALUE)**	**NET BALANCE (BOOK VALUE)**	**RISK WEIGHTED ASSETS**
On balance sheet items	3,761,743	3,512,675	2,808,166
Off balance sheet items	272,687	269,654	253,628
Derivatives	10,690	10,690	10,690
Operational Risk	-	-	233,953
Market Risk	-	-	52,171
TOTAL	**4,045,120**	**3,793,018**	**3,358,608**
Common equity Tier I Capital			402,817
Additional Tier 1 Capital			115,500
Tier 2 Capital			33,939
TOTAL REGULATORY CAPITAL			**552,256**
Total required Capital @ 12.25%			411,429
Capital requirement for credit risk			376,379
Capital requirement for market risk			6,391
Capital requirement for operational risk.			28,659
COMMON EQUITY TIER 1 RATIO			**12.0**
TIER I RATIO			**15.4**
TOTAL CAPITAL RATIO			**16.4**

RISK EXPOSURE **AND ASSESSMENT:**

RISK MANAGEMENT

The primary objective of risk management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises Corporate Credit Risk, SME Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Loan Review section. All risk management functions report to Chief Risk Officer and are independent from Business Units.

The Bank's Credit Risk Strategy is aimed at adopting a structured approach to credit growth and de-emphasizing areas that are considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks are based on international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

The Bank has exposure to the following risks:-

CREDIT RISK

QUALITATIVE DISCLOSURES:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fail to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures.

CREDIT RISK *(CONTINUED)*

Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures.

The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

The Bank has in place a robust credit risk management structure comprised of Corporate Credit Risk, SME credit risk, Retail Credit Risk, Loan Review Mechanism, Remedial Management and Credit Administration and Control Divisions.

CORPORATE CREDIT RISK AND SME CREDIT RISK:

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate Banking and Financial Institutions

exposures while SME Credit Risk Division independently reviews Business Banking and Small Business Unit exposures. Both the Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

RETAIL CREDIT RISK

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/ reward of those portfolios. Product programs are approved by Board Risk Committee and their performance is monitored on a regular basis and reviewed.

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review of the Credit Policy / Product Program. Credit facilities outside the Product Programs / Policy Parameters are individually reviewed and assessed by the Retail Banking division & the Retail Credit Risk Division.

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency and to enhance the recovery methodologies of the retail portfolio. The Bank has an automated Loan Collection System in order to enhance its collections and recovery processes. It also has an automated Loan Origination System to further enhance its Retail Credit Risk framework.

LOAN REVIEW MECHANISM

An independent Loan Review Mechanism Division evaluates the quality of loan book, balance between risk and reward and brings about qualitative improvements in credit administration. The division evaluates effectiveness of loan administration, integrity of credit grading process, assessment of expected credit losses, portfolio quality, etc.

REMEDIAL MANAGEMENT

Remedial Management is responsible for pursuing each delinquent account, by using all available measures, to reduce exposure to high risk groups, to maximize recoveries, rehabilitating these relationships so that they can be returned to the business lines as fully performing accounts and progressively improve the status of the portfolio.

CREDIT RISK *(CONTINUED)*

CREDIT ADMINISTRATION AND CONTROL

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of the Bank.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a "maker and checker" concept.
- Disbursement of funds for all approved credit exposures is appropriately authorized.

RISK REPORTING AND MEASUREMENT SYSTEMS

The scope and nature of the risk reporting and/or measurement system are as follows:

Risk Reporting

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions

In addition, the bank conducts industry studies in various sectors considered to have a bearing on the portfolio credit quality, such as, real estate, leasing, and sectors impacted by volatility in commodity prices. For FIG exposures the bank conducts stress tests and quarterly reviews of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. These reports are reviewed periodically by the Management and Board Risk Committees.

A review of the Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the latest report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management summary, delinquency and default trends (including product-wise delinquency analysis, vintage analysis, delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

MEASUREMENT

Impairment losses on loans and advances:

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

CREDIT RISK *(CONTINUED)*

DEFINITION OF DEFAULT AND CURE

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

INCORPORATION OF FORWARD-LOOKING INFORMATION

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

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

ECONOMIC VARIABLE ASSUMPTIONS

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman)
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:
    - historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
    - size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,
    - the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.

CREDIT RISK *(CONTINUED)*

5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

CREDIT RISK *(CONTINUED)*

LOSS GIVEN DEFAULT

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the bank.

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. adequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

MODEL RISK MANAGEMENT:

The bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the bank has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

CREDIT RISK *(CONTINUED)*

MODEL RISK MANAGEMENT: *(CONTINUED)*

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the bank in terms of usage of models.

CREDIT RISK MANAGEMENT POLICY:

A comprehensive set of Corporate Credit Risk Policy and Procedures Manuals, provides detailed policy guidelines and embedded in which are the regulatory/in-house limits. Further, procedures manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications. Financial Institutions Group (FIG) exposures are managed as per the Financial Institutions Policy guidelines. Retail Credit Policy outlines the policy guidelines related to retail banking and covers product programs and parameters relating to Salary Related Loans, Mortgages, Credit Cards and other retail product offerings. Credit Policies and Procedures are periodically reviewed to ensure that they are aligned to the market and regulatory guidelines.

QUANTITATIVE DISCLOSURE:

i. Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2020 :

RO'000

SL NO	TYPE OF CREDIT EXPOSURE	AVERAGE GROSS EXPOSURE		TOTAL GROSS EXPOSURE AS AT	
		CURRENT YEAR	PREVIOUS YEAR	31 DECEMBER 2020	31 DECEMBER 2019
1	Overdrafts	97,781	93,178	93,793	107,387
2	Personal loans	1,378,056	1,381,588	1,396,881	1,362,833
3	Loans against trust receipts	64,579	52,646	74,865	66,420
4	Other loans	1,431,472	1,350,666	1,468,333	1,370,949
5	Bills purchased / discounted	10,704	15,319	9,882	12,257
	TOTAL	**2,982,592**	**2,893,397**	**3,043,754**	**2,919,846**

ii. Geographic distribution of exposures by major types of credit exposure as at 31 December 2020 :

RO'000

S. NO	TYPE OF CREDIT EXPOSURE	OMAN	OTHER GCC COUNTRIES	OTHERS	TOTAL
1	Overdrafts	81,403	12,390	-	93,793
2	Personal loans	1,396,463	418	-	1,396,881
3	Loans against trust receipts	67,379	7,486	-	74,865
4	Other loans	1,395,432	69,922	2,979	1,468,333
5	Bills purchased / discounted	8,303	1,579	-	9,882
	TOTAL	**2,948,980**	**91,795**	**2,979**	**3,043,754**

CREDIT RISK *(CONTINUED)*

iii. Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2020 :

(RO'000)

S. NO	ECONOMIC SECTOR	OVERDRAFT	LOANS	BILLS PURCHASED / DISCOUNTED	OTHERS	GROSS TOTAL	OFF BALANCE SHEET EXPOSURE
1	Import Trade	-	9,480	-	67,379	76,859	-
3	Wholesale & Retail Trade	15,266	123,418	708	4,290	143,682	32,912
4	Mining & Quarrying	1,054	94,534	872	-	96,460	6,585
5	Construction	37,506	107,500	3,781	907	149,694	155,374
6	Manufacturing	10,404	180,624	1,477	441	192,946	19,565
7	Electricity, gas and water	288	185,094	56	-	185,438	2,457
8	Transport and Communication	708	183,723	39	-	184,470	18,727
9	Financial Institutions	5,418	216,176	-	413	222,007	53,495
10	Services	11,300	224,730	793	1,435	238,258	12,763
11	Personal Loans	-	1,396,881	-	-	1,396,881	285
12	Agriculture and Allied Activities	960	3,702	-	-	4,662	85
13	Government	-	55,236	-	-	55,236	-
14	Non-Resident Lending	-	18,899	-	-	18,899	-
15	All Others	10,889	65,217	2,156	-	78,262	18,659
	TOTAL	**93,793**	**2,865,214**	**9,882**	**74,865**	**3,043,754**	**320,907**

iv. Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2020 :

(RO'000)

S. NO	TIME BAND	OVERDRAFT	LOANS	BILLS PURCHASED / DISCOUNTED	OTHERS	TOTAL	OFF BALANCE SHEET EXPOSURE
1	Up to 1 month	4,690	161,382	3,834	13,008	182,914	91,918
2	1-3 months	4,690	214,177	4,456	32,885	256,208	83,574
3	3-6 months	4,690	98,260	1,364	24,984	129,298	42,669
4	6-9 months	4,690	41,605	228	3,988	50,511	27,687
5	9-12 months	4,690	170,354	-	-	175,044	38,382
6	1-3 years	23,449	432,308	-	-	455,757	23,057
7	3-5 years	23,448	288,587	-	-	312,035	9,695
8	Over 5 years	23,446	1,458,541	-	-	1,481,987	3,925
	TOTAL	**93,793**	**2,865,214**	**9,882**	**74,865**	**3,043,754**	**320,907**

CREDIT RISK *(CONTINUED)*

v. Total loan broken down by major industry or counter party type as at 31 December 2020 :

(RO'000)

S. NO	ECONOMIC SECTOR	GROSS LOANS	OF WHICH, NPL AS PER IFRS -9	STAGE -1 AND STAGE- 2 PROV AS PER IFRS -9	STAGE 3 PROV HELD |AS PER IFRS -9	PROVISIONS MADE DURING THE YEAR	ADVANCES WRITTEN OFF DURING THE YEAR
1	Import Trade	76,859	-	384	-	-	-
3	Wholesale & Retail Trade	143,682	23,961	3,524	19,476	2,128	228
4	Mining & Quarrying	96,460	250	2,300	250	1	-
5	Construction	149,694	54,167	4,496	38,227	8,528	11
6	Manufacturing	192,946	8,393	1,634	5,529	313	5
7	Electricity, gas and water	185,438	52	579	52	-	-
8	Transport and Communication	184,470	3,060	1,689	2,659	109	-
9	Financial Institutions	222,007	-	1,096	-	-	-
10	Services	238,258	41,036	3,393	30,037	11,016	-
11	Personal Loans	1,396,881	38,022	13,785	16,048	2,381	5,228
12	Agriculture and Allied Activities	4,662	32	63	7	6	-
13	Government	55,236	-	21	-	-	-
14	Non-Resident Lending	18,899	-	-	-	-	-
15	All Others	78,262	3	10,502	141	15,259	-
	TOTAL	**3,043,754**	**168,976**	**43,466**	**112,426**	**39,741**	**5,472**

vi. Amount of impaired loans as at 31 December 2020, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

S. NO	GROSS LOANS	GROSS LOANS	OF WHICH, NPL AS PER IFRS -9	STAGE -1 AND STAGE- 2 PROV AS PER IFRS -9	STAGE 3 PROV HELD AS PER IFRS -9	PROVISIONS MADE DURING THE YEAR	ADVANCES WRITTEN OFF DURING THE YEAR
1	Oman	2,948,980	118,304	42,369	79,865	26,702	5,326
2	Other GCC Countries	91,795	50,672	1,097	32,561	13,039	146
3	Others	2,979	-	-	-	-	-
	TOTAL	**3,043,754**	**168,976**	**43,466**	**112,426**	**39,741**	**5,472**

CREDIT RISK *(CONTINUED)*

vii. Movement of gross loans

					RO'000
	MOVEMENT OF GROSS LOANS **DURING THE YEAR 2020**				
S. NO	**DETAILS**	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
1	Opening balance	2,287,047	489,190	143,609	2,919,846
2	Migration / changes (+/-)	(82,386)	44,188	38,198	-
3	New loans	640,598	295,001	7,226	942,825
4	Recovery of loans	591,884	206,983	14,583	813,450
5	Loans written off	-	-	5,472	5,472
6	**Closing balance**	**2,253,382**	**621,396**	**168,976**	**3,043,754**
7	Total Provisions	13,156	33,565	112,426	159,147

Disclosures for portfolios subject to the standardized approach.

QUALITATIVE DISCLOSURES:

The bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.

With the approval of the CBO, the bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, with the approval of CBO, the bank uses the discretion of the simple approach for recognising collaterals.

QUANTITATIVE DISCLOSURES:

Gross exposure amount as at 31 December 2020, subject to the standardized approach is as below:

								RO'000
SR NO	**PRODUCT / RATING**	**CARRYING 0%**	**CARRYING 20%**	**CARRYING 35%**	**CARRYING 50%**	**CARRYING 100%**	**CARRYING 150%**	**TOTAL**
	RATED							
1	Sovereign	443,357	-	-	-	-	-	443,357
2	Banks	-	59,465	-	12,805	20,952	1,581	94,803
	UNRATED							
1	Corporate	99,015	7,536	-	-	1,244,849	-	1,351,400
2	Retail	-	-	-	-	896,860	-	896,860
3	Claims secured by residential property	-	-	251,172	-	210,826	-	461,998
4	Claims secured by commercial property	-	-	-	-	165,785	-	165,785
5	Past due loans	-	-	-	-	167,712	-	167,712
6	Other assets	38,921	-	-	-	140,424	196	179,541
7	Venture Capital & Private Equity Investments	-	-	-	-	-	288	288
8	Off-balance Sheet Items	3,031	4,560		24,754	251,030	-	283,375
	TOTAL BANKING BOOK	**584,324**	**71,561**	**251,172**	**37,559**	**3,098,438**	**2,065**	**4,045,119**

CREDIT RISK MITIGATION

QUALITATIVE DISCLOSURES:

The bank holds collateral against loans and advances to customers in the form of cash, government development bonds, acceptable financial securities, mortgage interest over property, and other registered charge over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis.

The Bank has adopted the simple approach for collaterals.

QUANTITATIVE DISCLOSURES:

		RO'000
S.NO	**DETAILS**	**AMOUNT**
1	Corporate Cash Collateral	37,626
2	Specific provisions and reserve interest on loans and advances and due from banks	112,427
	TOTAL	**150,053**

The capital requirement on credit risk as at 31 December 2020 is RO ('000) 371,100

MARKET RISK

The objective of Bank's Market Risk Mangement is to manage and control market risk exposures which arises from fluctuations in interest rates, foreign exchange rates and equity prices while maintaining a market profile consistent with Bank's risk appetite. The board has set limits for acceptable levels of Market Risk. The Assets and Liabilities Committee (ALCO) monitors the exposure on a regular basis. Market Risk is managed based on Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Separate Market Risk policies exist for the Bank's operations in Egypt and UAE to be compatible with the local regulatory and operational environments. Stress tests are also conducted periodically to analyze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committees.

Market Risk Division provides risk-weightings for treasury products in line with best practices based on potential future exposure. The middle-office along with Treasury and Investment Banking Operations monitors the Market Risk positions of the Bank.

TRADING BOOK

Foriegne Exchange Risk is the risk that the Bank may suffer losses as a result of adverse exchange rate movements.

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positons are monitored on daily basis to ensure open curreny position is maintained within the regulatory limit of 40% of networth.

Value-at-risk (VaR) is used to estimate the potentioal losses on risk positions as a result of movemnets in market rates and prices. The VaR is computed every month for all non-pegged currencies in which the Bank's end-of-the-day position is above a minimum threshold. The VaR is reviewed by ALCO, Management Risk Committee and Board Risk Committee.

The Bank holds investment that are Fair Value Through Profit and Loss account (FVTPL) consisting of investments in portfolio of equities and funds which is managed by the Investment Banking division. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits through Mark-to-Market (MTM) reports.

For the purpose of capital charge, the three month average positions is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 12.5% to reflect the general market risk.

Capital required for trading book as at 31 December 2020 :

Foreign Exchange Risk - RO ('000) 6,391

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

OPERATIONAL RISK *(CONTINUED)*

The bank follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income.

Capital requirement for operational risk as per Basel II is RO (000s) 33,939.

Insurance is another tool used by the bank as an operational risk mitigant. Insurance coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, incomplete transactions, Directors and Officers liability and cyber liability insurance etc as obtained by the bank, aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the bank has set in place a special operational risk appetite against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigants are put in place.

BANKING **BOOK**

EQUITY PRICE RISK

The proprietary equity positions are held in the Fair Value Through Other Comphrehensive Income (FVOCI) category as part of Banking book exposure and not in the FVTPL category. As such, no VaR is calculated for the FVOCI portfolio. These are marked to market on a daily basis which are circulated to the management and required actions, if any, are promptly taken as per the investment Policy, which inter-alia provides sector concentration limits, trigger levels and other guidelines for prudent management of the portfolio.

INTEREST RATE RISK

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank and impact on the earnings of the Bank up to one year.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits. Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

The methods for interest rate sensitivity analysis are a traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and duration (to measure interest rate sensitivity of capital) as per methodology provided by Basel Committee in 2004.

QUANTITATIVE DISCLOSURES:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

AS AT DECEMBER 2020	200 BPS INCREASE	200 BPS DECREASE
Earnings impact - RO'000s	8,902	(8,902)
Earnings impact - USD'000s	23,122	(23,122)

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The analysis is carried out at monthly rests and results thereof monitored against the in-house prescribed limits; the results are also actively deliberated at the ALCO meetings. The interest rate riskof the Bank have been within the prescibed limit during the year.

INTEREST RATE RISK *(CONTINUED)*

The bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2020 was as follows:

	AVERAGE EFFECTIVE INTEREST RATE	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.88%	23,668	-	-	-	192,458	216,126
Due from banks and other money market placements (net)	1.32%	57,867	12,705	3,850	-	20,294	94,716
Loans, advances and financing activities for customers (net)	5.42%	1,039,284	642,749	623,468	582,361	-	2,887,862
Financial investments	5.73%	22,849	8,975	92,143	151,746	42,821	318,534
Premises and equipment	N/A	-	-	-	-	62,568	62,568
Other assets	N/A	-	-	-	-	52,845	52,845
TOTAL ASSETS		**1,143,668**	**664,429**	**719,461**	**734,107**	**370,986**	**3,632,651**
Due to banks and other money market deposits	2.33%	157,138	16,085	11,550	-	103,950	288,723
Customers' deposits and unrestricted investment accounts	2.26%	192,684	1,580,316	303,225	66	450,888	2,527,179
Euro medium term notes	5.85%	-	-	192,500	-	-	192,500
Other liabilities	N/A	-	-	-	-	84,448	84,448
Taxation	N/A	-	-	-	-	9,674	9,674
Tier 1 Perpetual Bond	7.88%	-	115,500	-	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	414,627	414,627
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**349,822**	**1,711,901**	**507,275**	**66**	**1,063,587**	**3,632,651**
TOTAL INTEREST RATE SENSITIVITY GAP		**793,846**	**(1,047,472)**	**212,186**	**734,041**	**(692,601)**	**-**
CUMULATIVE INTEREST RATE SENSITIVITY GAP		**793,846**	**(253,626)**	**(41,440)**	**692,601**	**-**	

LIQUIDITY RISK

QUALITATIVE DISCLOSURES:

Liquidity may be defined as a Bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk occurs when the Bank is unable to meet short term obligation when falling due which may raise a potentialrisk to earnings and capital of the Bank. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or impacting Bank's reputation. The Bank manages the liquidity risk based on Central Bank of Oman guidelines, Liquidity Risk Policy and Liquidity Contingency Plan.

NBO takes a two-tiered approach to Liquidity Risk Management:

Going concern Liquidity Management - management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management - ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan that documents the procedures that the Bank would adopt to withstand either temporary or prolonged disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO. Additionally, the Bank has also set internal mismatch limits by currency and limits for ensuring that liquidity lines are sufficient to meet short term maturing obligations.

The liquidity position is monitored through the Statement of Maturities of Assets and Liabilities to ensure that the gaps are within the regulatory and internal limits. The Bank also periodically conducts stress tests on liquidity based on market and bank specific scenarios .

Management periodically reviews the strategy and policies related to management of liquidity to ensure that necessary actions are implemented for monitoring and controlling liquidity risk.

The Bank has in place an effective and efficient liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently, if required. ALCO is kept informed regularly of the liquidity position of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

THE SCOPE AND NATURE OF THE RISK REPORTING AND/OR MEASUREMENT SYSTEM:

Scope and Nature of Risk Reporting:

Maturities of Assets and Liabilities is prepared on a monthly basis and more frequently, as required, setting out the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limits is also reported therein. This statement is placed before the ALCO at its meetings and in case any of the gap limits is exceeded, the same is escalated immediately to the ALCO along with analysis and further action planned to bring the position within the limits.

A Liquidity Lines statement is also prepared based on assumptions set out in the Liquidity Policy to evaluate the Bank's ability to meet its liabilities maturing in one month time band. Further, the liquidity of the Bank is assessed under bank specific and market specific stress scenarios and impact on gap positions and Liquidity Lines is estimated. Daily Financial Risk Report is used for monitoring the daily ratios and gaps and Early Warning Indicators for assessing any potential liquidity impact of leading indicators. These reports are regularly reviewed by the ALCO, Management and Board Risk Committee.

LIQUIDITY RISK *(CONTINUED)*

MEASUREMENT:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed to by the Bank. In addition, the Bank regularly evaluates its liquidity position with respect to the liquidity ratios prescribed in the Liquidity Risk Policy.

The Bank has put in place "Liquidity Risk Policy" and "Liquidity Contingency Plan"- duly approved by the Board Risk Committee, which provides detailed guidelines for mitigating the risk. In case of a contingency, the policy provides a blue-print for asset sales, market access and restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place the availability of liquidity support in the form of committed lines of credit and reciprocal arrangements. The continuing availability of the CBO liquidity window, which was introduced in the wake of the global financial crisis, is also one of the mitigants of the liquidity risk. Besides, the Bank ensures the liquidity of certain assets as per the Liquidity Contingency Plan as a buffer against liquidity events.

The Bank has also put in place Country and Transfer Risk Policies to primarily control and monitor cross border exposures.

QUANTITATIVE DISCLOSURES:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2020 was as follows:

	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	SUBTOTAL LESS THAN 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	SUBTOTAL OVER 12 MONTHS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	148,353	30,207	178,560	21,409	16,157	37,566	216,126
Due from banks and other money market placements (net)	76,621	14,245	90,866	3,850	-	3,850	94,716
Loans, advances and financing activities for customers (net)	439,119	237,931	677,050	767,790	1,443,022	2,210,812	2,887,862
Financial investments	62,905	2,998	65,903	94,547	158,084	252,631	318,534
Premises and equipment	-	-	-	-	62,568	62,568	62,568
Other assets	41,738	10,659	52,397	448	-	448	52,845
TOTAL ASSETS	**768,736**	**296,040**	**1,064,776**	**888,044**	**1,679,831**	**2,567,875**	**3,632,651**
Due to banks and other money market deposits	118,638	16,085	134,723	154,000	-	154,000	288,723
Customers' deposits and unrestricted investment accounts	588,819	861,846	1,450,665	624,505	452,009	1,076,514	2,527,179
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	81,970	981	82,951	1,327	170	1,497	84,448
Taxation	9,674	-	9,674	-	-	-	9,674
Shareholders' equity	-	-	-	-	414,627	414,627	414,627
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**799,101**	**878,912**	**1,678,013**	**972,332**	**982,306**	**1,954,638**	**3,632,651**

LIQUIDITY RISK *(CONTINUED)*

BASEL III LIQUIDITY FRAMEWORK

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framreork which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

LIQUDTY COVERAGE RATIO (LCR)

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBOrequirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on January 1, 2019, as per the time-line given below:

	1 JAN 2015	1 JAN 2016	1 JAN 2017	1 JAN 2018	1 JAN 2019	1 JAN 2020
Minimum LCR	60%	70%	80%	90%	100%	75%

Liquid Coverage Ratio as per Basel III based on weighted average value is 157%

NET STABLE FUNDING RATIO (NSFR)

The standard of Net Stabe Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective Janauray 2018, with a minimum ratio of 100% as per the regulatory guidance.

Net Stable Funding Ratio (NSFR) as per Basel III is 107.4% as of 31 December 2020 .

NET STABLE FUNDING RATIO (NSFR)

The standard of Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance.

ITEM	UNWEIGHT VALUE	WEIGHTED VALUE
AVAILABLE STABLE FUNDING		
Regulatory capital	552,256	552,256
Liabilities with effective residual maturities of one year or more	660,851	660,851
Retail and small business customers		
- Stable Deposits	731,597	695,017
- Less Stable Deposits	204,007	183,606
Wholesale Funding		
- Operational and short term funding	1,295,137	647,569
- Other wholesale funding	596,292	193,762
TOTAL AVAILABLE STABLE FUNDING	**4,040,140**	**2,933,061**
Required Stable Funding		
High quality liquid assets		
- Coins, banknotes and reserves with CBO	191,957	-
- Other Level 1 assets	234,326	11,716
Funding to financial institutions with residual maturities of less than six months not included in the above categories	90,866	13,630
Funding not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	567,191	248,940
Unencumbered residential mortgages that would qualify for the 35% or lower risk weight under Basel II standardised approach for credit risk	251,172	163,262
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	2,274,776	2,274,776
OFF BALANCE SHEET EXPOSURES		
Irrevocable and conditionally revocable credit and liquidity facilities to any client	7,236	362
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	343,271	17,164
TOTAL REQUIRED STABLE FUNDING	**3,960,795**	**2,729,850**
NSFR (Min Basel III requirement - 100%)		**107.40%**

LEVERAGE RATIO

The leverage ratio deals with the risk of buildup of excessive on and off balance sheet exposures. Minimum Leverage Ratio standard will be made applicable to all the Banks effective from 31 December 2020 .

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	31-Dec-2020
1	Total consolidated assets as per published financial statements	3,632,651
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	10,690
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)	219,187
7	Other adjustments	
8	**Leverage ratio exposure**	**3,862,528**

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	31-Dec-2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,632,651
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)**	**3,632,651**
	DERIVATIVE EXPOSURES	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	10,690
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)**	**10,690**
	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	343,270
18	(Adjustments for conversion to credit equivalent amounts)	(124,083)
19	Off-balance sheet items (sum of lines 17 and 18)	219,187
	CAPITAL AND TOTAL EXPOSURES	
20	Tier 1 capital	518,317
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,862,528**
	LEVERAGE RATIO	
22	Basel III leverage ratio (%)	13.4

BASEL III – TRANSITION DISCLOSURE:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2020.

Prepared under the Guidelines on composition of capital disclosure requirements

TABLE 2A	RO'000
	BALANCE SHEET AS IN PUBLISHED FINANCIAL STATEMENTS
Assets	31 December 2020
Cash and balances with Central Bank of Oman	212,457
Certificates of deposit	3,669
Due from banks	79,980
Loans and advances to banks	14,736
Loans and advances	2,887,862
Investments in securities	318,534
Property and equipment	62,568
Other assets	52,845
TOTAL ASSETS	**3,632,651**
LIABILITIES	
Due to banks	288,723
Customer deposits	2,527,179
Euro medium term notes	192,500
Other liabilities	94,016
TOTAL LIABILITIES	**3,102,418**
SHAREHOLDERS' EQUITY	
Paid-upshare capital	162,595
Share premium	34,465
Legal reserve	54,198
Retained earnings	161,911
Other reserves	1,564
Tier 1 perpetual bond	115,500
TOTAL SHAREHOLDERS' EQUITY	**530,233**
TOTAL LIABILITY AND SHAREHOLDERS' FUNDS	**3,632,651**

BASEL III – TRANSITION DISCLOSURE: *(CONTINUED)*

Prepared under the Guidelines on composition of capital disclosure requirements

TABLE 2B		RO'000
	BALANCE SHEET AS IN PUBLISHED FINANCIAL STATEMENTS	REFERENCE
Assets	31 December 2020	
Cash and balances with Central Bank of Oman	210,885	
Certificates of deposit	5,241	
Balance with banks and money at call and short notice	79,980	
Investments in securities	318,534	
LOANS AND ADVANCES OF WHICH:		
Loans to Banks - Gross	14,823	
General Provisions considered for Tier 2	(87)	A1
Net Loans to banks	14,736	
Loans to Customers - Gross	3,043,754	
Specific Provisions	(122,672)	
General Provisions considered for Tier 2	(33,220)	A1
Net Loans to customers	2,887,862	
Fixed assets	62,568	
Other assetsof which:	52,845	
Deferred tax assets	-	
Amount considered for CET1	-	A2
Current year allocation - not eligible	-	
TOTAL ASSETS	**3,632,651**	
CAPITAL & LIABILITIES		
Paid-upCapital	197,060	
Of which:		
Amount eligible for CET1	197,060	C1
Amount eligible for AT1	-	
Reverses and Surplus	161,911	
Of which: Amount eligible for CET1		
Retained earnings carried forward	153,781	C2
Profit for current year not eligible	8,130	
Legal reserve	54,198	
General reserve	-	
Subordinated debt reserve	-	
Proposed Stock Dividend	-	
TOTAL AMOUNT ELIGIBLE FOR CET1	**54,198**	C3
Tier 1 perpetual bond	115,500	C7
Proposed Cash Dividend	-	
Cumulative changes in fair value of investments	(10,352)	
Amount eligible for Tier 1	10,352	A2
Revaluation reserve	1,564	
TOTAL CAPITAL	**530,233**	
DepositsOf which:		
Deposits from banks	288,723	
Customer deposits	2,367,660	
Deposits of Islamic Banking window	159,519	
Euro medium term notes	192,500	
Other deposits (Sub-debt)	-	C6
Other liabilities & provisionsOf which:	94,016	
TOTAL	**3,632,651**	

BASEL III COMMON DISCLOSURE

Prepared under the Guidelines on composition of capital disclosure requirements

TABLE 4		RO'000
BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS		
	COMPONENT OF REGULATORY CAPITAL REPORTED BY BANK	SOURCE BASED ON REFERENCE NUMBERS/LETTERS OF THE BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION FROM STEP 2
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	197,060	C1
Retained earnings	161,911	C2
Accumulated other comprehensive income (and other reserves)	54,198	C3
Public sector capital injections grandfathered until 1 January 2018	-	
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
Common Equity Tier 1 capital before regulatory adjustments	413,169	
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	A2
Cumulative fair value gains or losses on available for sale instruments	(10,352)	
TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1	**(10,352)**	
Common Equity Tier 1 capital (CET1)	402,817	
Additional Tier 1 capital: instruments (TIER1 PERPETUAL BOND)	115,500	C7
Additional Tier 1 capital: regulatory adjustments - Nil		
Tier 1 capital (T1 = CET1 + AT1)	518,317	
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier 2	-	C6-C4
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)	-	
Of which: instruments issued by subsidiaries subject to phase out	-	
General provisions	33,307	A1
Cumulative fair value gains or losses on available for sale instruments	632	C5
Tier 2 capital before regulatory adjustments	33,939	
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS		
National specific regulatory adjustments	-	
Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-basel III treatment.	-	
Of which: cumulative fair value gains or losses on available for sale instruments	-	
TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL	-	
TIER 2 CAPITAL (T2)	**33,939**	
TOTAL CAPITAL (TC = T1 + T2)	**552,256**	

BASEL III COMMON DISCLOSURE *(CONTINUED)*

	AMOUNTS RO'000
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	197,060
Retained earnings	161,911
Accumulated other comprehensive income (and other reserves)	54,198
Public sector capital injections grandfathered until 1 January 2018	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	-
Common Equity Tier 1 capital: regulatory adjustments	**413,169**
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Gains and losses due to changes in own credit risk on fair valued liabilities.	10,352
TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1	**10,352**
Common Equity Tier 1 capital	402,817
Additional Tier 1 capital: instruments	115,500
Additional Tier 1 capital: regulatory adjustments Nil	
Tier 1 capital	518,317
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS	
Directly issued qualifying Tier 2 instruments plus related stock surplus	632
Directly issued capital instruments subject to phase out from Tier 2	-
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)	-
Of which: instruments issued by subsidiaries subject to phase out	-
Provisions	33,307
Tier 2 capital before regulatory adjustments	33,939
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS	
National specific regulatory adjustments	-
Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-basel III treatment.	-
Of which: Cumulative fair value gains or losses on available for sale instruments	-
TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL	-
TIER 2 CAPITAL	**33,939**
TOTAL CAPITAL	**552,256**
TOTAL RISK WEIGHTED ASSETS	**3,358,608**
Of which: Credit risk weighted assets	3,072,484
Of which: Market risk weighted assets	52,171
Of which: Operational risk weighted assets	233,953

BASEL III COMMON DISCLOSURE *(CONTINUED)*

	RO'000
	AMOUNTS
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.0
Tier 1 (as a percentage of risk weighted assets)	15.4
Total capital (as a percentage of risk weighted assets)	16.4
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIBbuffer requirement expressed as a percentage of risk weighted assets)	-
Of which: capital conservation buffer requirement	-
Of which: bank specific countercyclical buffer requirement	-
Of which: D-SIB/G-SIB buffer requirement	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	3.7
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	8.25
National Tier 1 minimum ratio (if different from Basel III minimum)	10.25
National total capital minimum ratio (if different from Basel III minimum)	12.25

DISCLOSURE TEMPLATE FOR MAIN FEATURES OF ALL REGULATORY CAPITAL INSTRUMENTS

1. **Common Equity.**

Common equity comprises of 1,625,946,449 equity shares of RO 0.100 each fully paid up, issued and governed under the laws of Sultanate of Oman.

2. **All other regulatory capital instruments**

1	Issuer	-	National Bank of Oman
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	XS1321921899
3	Governing law(s) of the instrument	-	English
4	Transitional Basel III rules	-	Additional Tier 1
5	Post-transitional Basel III rules	-	Eligible
6	Eligible at solo/group/group & solo	-	Solo
7	Instrument type	-	Additional Tier 1
8	Amount recognised in regulatory capital	-	RO 115.5 million
9	Par value of instrument	-	RO 115.5 million
10	Accounting classification	-	Equity
11	Original date of issuance	-	18-Nov-15
12	Perpetual or dated	-	Perpetual
13	Original maturity date	-	Not applicable
14	Issuer call subject to prior supervisory approval	-	Yes
15	Optional call date, contingent call dates and redemption amount	-	18 May 2021
16	Subsequent call dates, if applicable	-	Every five years
COUPONS / DIVIDENDS			
17	Fixed or floating dividend/coupon	-	Fixed
18	Coupon rate and any related index	-	7.875%
19	Existence of a dividend stopper	-	Yes
20	Fully discretionary, partially discretionary or mandatory	-	Fully discretionary
21	Existence of step up or other incentive to redeem	-	No
22	Noncumulative or cumulative	-	Non cumulative
23	Convertible or non-convertible	-	Non convertible
24	If convertible, conversion trigger (s)	-	Not applicable
25	If convertible, fully or partially	-	Not applicable
26	If convertible, conversion rate	-	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable
28	If convertible, specify instrument type convertible into	-	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable
30	Write-down feature	-	Yes
31	If write-down, write-down trigger(s)	-	Non viability event
32	If write-down, full or partial	-	Full (See note)
33	If write-down, permanent or temporary	-	Permanent
34	If temporary write-down, description of write-up mechanism	-	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	Subordinated to Senior Liabilities and Tier 2 - Subordinted debts
36	Non-compliant transitioned features	-	No
37	If yes, specify non-compliant features	-	Not applicable

Note: The Capital Securities can be cancelled (in the case of a write-down in whole) or written-down in part on a pro rata basis (in the case of a write-down in part) as determined by the Bank in conjunction with the Regulator in accordance with the Capital Regulations.

This report on Basel II & III disclosures was authorized for issue by the Board of Directors on 26 January 2021.

Amal Suhail Bahwan

Chairperson

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Statement of Financial Positions at 31 December 2020

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Independent Auditors' Report

To the Shareholders of National Bank of Oman SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG ("the Bank") set out on pages 7 to100, which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audi matter
Expected credit loss allowance against loans and advances As at 31 December 2020, the gross loans and advances of the Bank were RO 3.04 billion against which an expected credit loss ("ECL") allowance of RO 0.16 billion was maintained. We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the financial statements of the Bank. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty about the economic outlook in particular and increased the levels of judgement needed to determine the ECL. The key areas of judgement include: 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Bank has applied additional judgements to identify and estimate the likelihood of borrowers that might have experienced SICR that resulted in deferrals of payments to certain counterparties. The deferrals of payments were not deemed to have triggered SICR by themselves. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages.	▪ We obtained our understanding of management's assessment of impairment of loans and advances including the Bank's internal rating model, impairment allowance policy and the ECL modelling methodology including the enhancements made in light of the COVID-19 pandemic. ▪ We compared the Bank's ECL allowance policy and ECL estimation methodology with the requirements of IFRS 9. ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including IT general and application controls) over: • the IT systems and applications underpinning the ECL model; • the modelling process, including governance over the monitoring of the model including approval of key assumptions and management overlays. • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model. ▪ For a sample of customers, we assessed: • the staging as identified by management; and

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3. The need to apply management overlay using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model. Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020. *Refer to the summary of significant accounting policy note 3.6 for the impairment of financial assets; note 2.4.2 which contains the disclosure of critical accounting judgements and estimates relating to impairment losses on financial assets and the impairment assessment methodology used by the Bank; note 6 and 26 which contains the disclosure of impairment against loans and advances; note 30.1 for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 30.1 for COVID-19 imapct on ECL.*	• management's computations for ECL. ▪ We tested the appropriateness of the Bank's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Bank's staging categorisation including customers vulnerable sectors affected by the COVID-19 pandemic. ▪ We assessed the qualitative factors which were considered by the Bank to recognise any management overlays, in case of data or model limitations. Where such management overlays were applied, we assessed those management overlays and the governance process around them. ▪ We assessed the reasonableness of the underlying assumptions used by the Bank in the ECL model including forward looking assumptions in cognisance of the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020.

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	▪ Where relevant, we involved our financial risk management specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in management overlays. ▪ We assessed the adequacy of disclosures in the financial statements.

Other Matter

The financial statements of the Bank for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 9 March 2020.

Other Information

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

- Chairman's report
- Management Discussion and Analysis Report
- Financial statements of Muzn Islamic Window
- Corporate Governance Report
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of Muzn Islamic Window

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

16 March 2021

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Ravikanth Petluri

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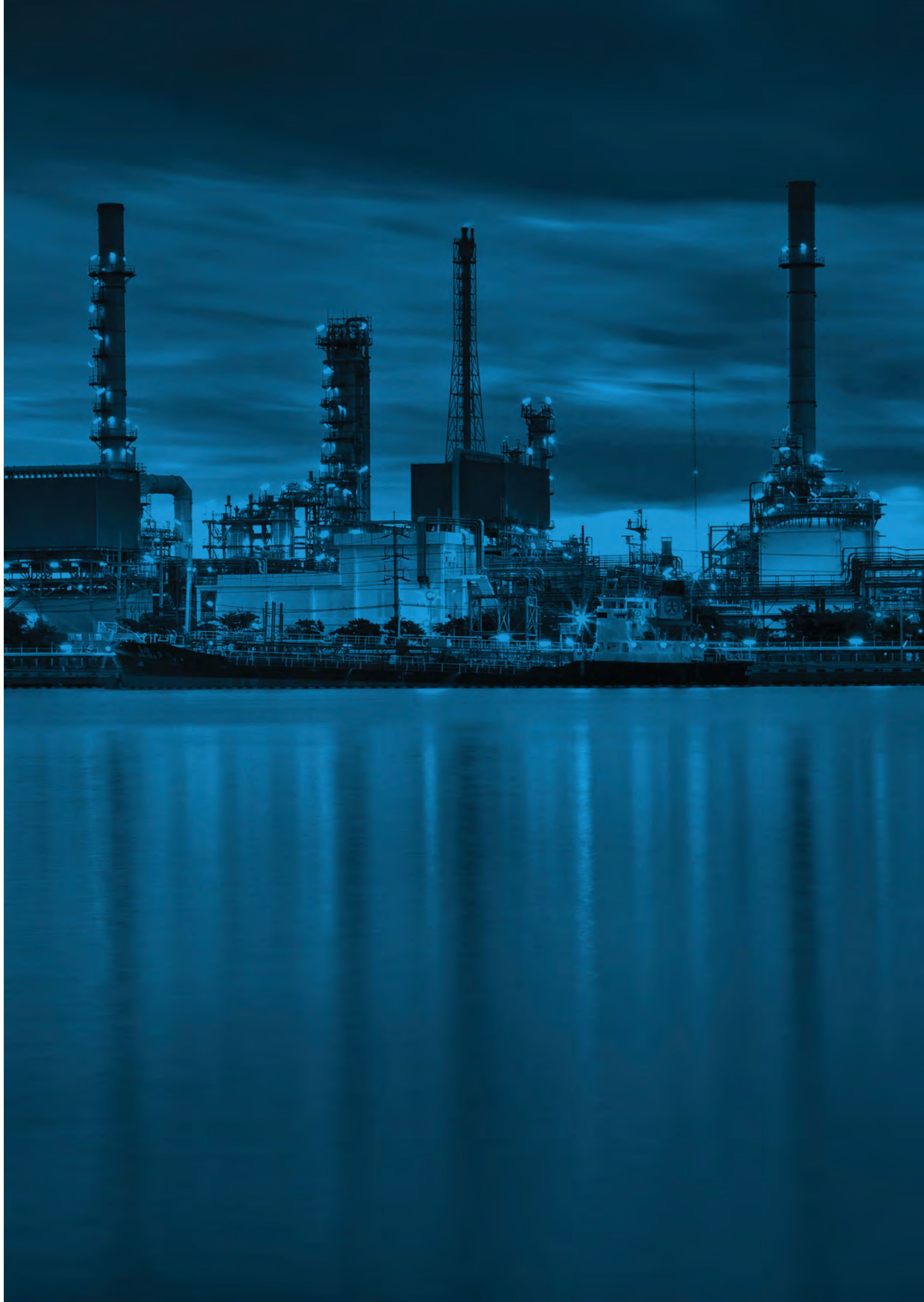

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

2019	2020			2020	2019
USD'000	USD'000		NOTES	RO'000	RO'000
		ASSETS			
866,940	**561,366**	Cash and balances with Central Banks	4	**216,126**	333,772
284,094	**246,016**	Due from banks and other money market placements (net)	5	**94,716**	109,376
7,276,771	**7,500,940**	Loans, advances and Islamic financing assets (net)	6	**2,887,862**	2,801,557
759,868	**827,361**	Financial investments	7	**318,534**	292,549
168,953	**162,514**	Property and equipment	8	**62,568**	65,047
105,834	**137,260**	Other assets	9	**52,845**	40,746
9,462,460	**9,435,457**	**TOTAL ASSETS**		**3,632,651**	3,643,047
		LIABILITIES AND EQUITY			
		LIABILITIES			
737,106	**749,930**	Due to banks and other money market deposits	10	**288,723**	283,786
6,575,371	**6,564,101**	Customers' deposits and unrestricted investment accounts	11	**2,527,179**	2,531,518
500,000	**500,000**	Euro medium term notes	12	**192,500**	192,500
181,349	**219,345**	Other liabilities	13	**84,448**	69,819
34,340	**24,852**	Taxation	14	**9,568**	13,221
8,028,166	**8,058,228**	**TOTAL LIABILITIES**		**3,102,418**	3,090,844
		EQUITY			
422,325	**422,325**	Share capital	15	**162,595**	162,595
89,519	**89,519**	Share premium	16	**34,465**	34,465
140,774	**140,774**	Legal reserve	17	**54,198**	54,198
(1,985)	**4,062**	Other reserves	18	**1,564**	(764)
70,951	**-**	Proposed cash dividend	20	**-**	27,316
412,710	**420,549**	Retained earnings		**161,911**	158,893
1,134,294	**1,077,229**	**TOTAL EQUITY ATTRIBUTABLE TO THE SHARE HOLDERS OF THE BANK**		**414,733**	436,703
300,000	**300,000**	Tier 1 Perpetual Bond	19	**115,500**	115,500
1,434,294	**1,377,229**	**TOTAL EQUITY**		**530,233**	552,203
9,462,460	**9,435,457**	**TOTAL LIABILITIES AND EQUITY**		**3,632,651**	**3,643,047**

The attached notes 1 to 35 form part of these financial statements.

The financial statements were authorised for issue on 26 January 2021 in accordance with a resolution of the Board of Directors.

Chairperson

Chief Executive Officer

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2020

2019	2020			2020	2019
USD'000	USD'000		NOTES	RO'000	RO'000
425,257	**423,873**	Interest income	22	**163,191**	163,724
(190,065)	**(198,174)**	Interest expense	23	**(76,297)**	(73,175)
235,192	**225,699**	**Net interest income**		**86,894**	90,549
19,888	**23,208**	Income from Islamic financing and investment activities		**8,935**	7,657
(10,844)	**(12,792)**	Unrestricted investment account holders' share of profit		**(4,925)**	(4,175)
9,044	**10,416**	Net Income from Islamic financing and investment activities		**4,010**	3,482
244,236	**236,115**	**Net interest income and net income from Islamic financing and Investment assets**		**90,904**	94,031
50,852	**33,610**	Fee and commission income (net)		**12,940**	19,578
38,280	**34,076**	Other operating income	24	**13,119**	14,738
333,368	**303,801**	Operating income		**116,963**	128,347
(100,774)	**(100,101)**	Staff costs		**(38,539)**	(38,798)
(48,678)	**(48,868)**	Other operating expenses	25	**(18,814)**	(18,741)
(15,862)	**(16,813)**	Depreciation	8	**(6,473)**	(6,107)
(165,314)	**(165,782)**	Total operating expenses		**(63,826)**	(63,646)
168,054	**138,019**	Profit from operations before impairment losses and tax		**53,137**	64,701
(20,123)	**(81,374)**	**Total impairment losses on financial assets (net)**	26.4	**(31,329)**	(7,747)
147,931	**56,645**	Profit before tax		**21,808**	56,954
(14,345)	**(9,506)**	Taxation	14	**(3,660)**	(5,523)
133,586	**47,139**	**PROFIT FOR THE YEAR**		**18,148**	**51,431**
		OTHER COMPREHENSIVE INCOME			
		Items that will not be reclassified to profit or loss			
(3,229)	**(7,650)**	Equity investments at FVOCI – net change in fairvalue		**(2,945)**	(1,243)
(847)	**719**	Tax effect of equity investments at FVOCI – net change in fairvalue		**277**	(326)
		Items that are or maybe reclassified subsequently to profit or loss			
1,528	**(111)**	Debt instruments at FVOCI - net change in fairvalue		**(43)**	588
(2,548)	**(7,042)**	**OTHER COMPREHENSIVE EXPENSE FOR THE YEAR**		**(2,711)**	(981)
131,038	**40,097**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**15,437**	50,450
0.07	**0.01**	Earnings per share: (USD) – Basic and diluted – (RO)	28	**0.006**	0.027

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

	ATTRIBUTABLE TO EQUITY HOLDERS OF BANK				ATTRIBUTABLE TO EQUITY HOLDERS OF BANK				
	SHARE CAPITAL (NOTE 15)	SHARE PREMIUM (NOTE 16)	LEGAL RESERVE (NOTE 17)	OTHER RESERVES (NOTE 18)	PROPOSED CASH DIVIDEND (NOTE 20)	RETAINED EARNINGS	TOTAL	TIER I PERPETUAL BOND (NOTE 19)	TOTAL EQUITY
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2020	162,595	34,465	54,198	(764)	27,316	158,893	436,703	115,500	552,203
Net profit for the year	-	-	-	-	-	18,148	18,148	-	18,148
Other comprehensive income for the year	-	-	-	(2,711)	-	-	(2,711)	-	(2,711)
Net losses on derecognition of financial assets measured at FVOCI (net of tax)	-	-	-	-	-	(995)	(995)	-	(995)
Transfer to retained earnings	-	-	-	(480)	-	480	-	-	-
Dividend paid (note 20)	-	-	-	-	(27,316)	-	(27,316)	-	(27,316)
Payment of interest on tier 1 perpetual bond	-	-	-	-	-	(9,096)	(9,096)	-	(9,096)
Transfer to impairment reserve	-	-	-	5,519	-	(5,519)	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	162,595	34,465	54,198	1,564	-	161,911	414,733	115,500	530,233
Balance at 31 December 2020 – In USD'000	422,325	89,519	140,774	4,062	-	420,549	1,077,229	300,000	1,377,229
Balance at 1 January 2019	162,595	34,465	54,198	16,541	26,015	127,176	420,990	115,500	536,490
Restatement (note 2.7)	-	-	-	(4,385)	-	2,738	(1,647)	-	(1,647)
Restated balance at 1 January 2019	162,595	34,465	54,198	12,156	26,015	129,914	419,343	115,500	534,843
Net profit for the year	-	-	-	-	-	51,431	51,431	-	51,431
Other comprehensive income for the year	-	-	-	(981)	-	-	(981)	-	(981)
Dividend paid (note 20)	-	-	-	-	(26,015)	-	(26,015)	-	(26,015)
Payment of interest on tier 1 perpetual bond	-	-	-	-	-	(9,096)	(9,096)	-	(9,096)
Reversal of WHT on tier 1 perpetual bond	-	-	-	-	-	2,021	2,021	-	2,021
Transfer to impairment reserve	-	-	-	5,061	-	(5,061)	-	-	-
Transfer to retained earnings	-	-	-	(17,000)	-	17,000	-	-	-
Proposed dividend	-	-	-	-	27,316	(27,316)	-	-	-
Balance at 31 December 2019	162,595	34,465	54,198	(764)	27,316	158,893	436,703	115,500	552,203
Balance at 31 December 2019 – In USD'000	422,325	89,519	140,774	(1,985)	70,951	412,710	1,134,294	300,000	1,434,294

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

2019	2020			2020	2019
USD'000	USD'000		Notes	RO'000	RO'000
		OPERATING ACTIVITIES			
147,931	**56,645**	Profit before taxation		**21,808**	56,954
		Adjustments for:			
15,862	**16,813**	Depreciation	8	**6,473**	6,107
38,689	**101,734**	Allowance for credit losses - financial assets	26.4	**39,168**	14,895
-	**(1,621)**	Amortisation of Premium		**(624)**	-
(28)	**(13)**	Profit on sale of property and equipment		**(5)**	(11)
309	**(244)**	(Profit)/loss on investments at FVTPL	24	**(94)**	119
(47)	**(8)**	Translation differences		**(3)**	(18)
(3,584)	**(4,187)**	Dividend income	24	**(1,612)**	(1,380)
199,132	**169,119**	**OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES**		**65,111**	76,666
(26,364)	**43,894**	Due from banks and other money market placements		**16,899**	(10,150)
295,070	**(39,452)**	Due to banks and other money market deposits		**(15,189)**	113,602
(17,555)	**(327,392)**	Loans, advances and islamic financing assets		**(126,046)**	(6,759)
33,182	**(31,426)**	Other assets		**(12,099)**	12,775
205,548	**(11,270)**	Customers' deposits		**(4,339)**	79,136
(68,852)	**37,997**	Other liabilities		**14,629**	(26,508)
620,161	**(158,530)**	**CASH (USED IN)/ FROM OPERATING ACTIVITIES**		**(61,035)**	238,762
(4,312)	**(18,995)**	Taxes paid	14	**(7,313)**	(1,660)
615,849	**(177,525)**	**CASH (USED IN)/ FROM OPERATING ACTIVITIES**		**(68,348)**	237,102
		INVESTING ACTIVITIES			
(214,922)	**(100,597)**	Purchase of investments		**(38,730)**	(82,745)
47,603	**24,836**	Proceeds from sale of investments		**9,562**	18,327
(9,506)	**(10,470)**	Purchase of property and equipment	8	**(4,031)**	(3,660)
416	**117**	Proceeds from disposal of property and equipment		**45**	160
3,584	**4,187**	Dividend received	24	**1,612**	1,380
(172,825)	**(81,927)**	**NET CASH USED IN INVESTING ACTIVITIES**		**(31,542)**	(66,538)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

2019	2020			2020	2019
USD'000	USD'000		Notes	RO'000	RO'000
		FINANCING ACTIVITIES			
(67,571)	**(70,951)**	Payment of dividend	20	**(27,316)**	(26,015)
(44,156)	-	Repayment in subordinated debt		-	(17,000)
(297,787)	-	Payment of euro medium term notes		-	(114,648)
(18,377)	**(23,626)**	Interest on Tier 1 perpetual bond		**(9,096)**	(7,075)
(427,891)	**(94,577)**	**Net cash used in financing activities**		**(36,412)**	(164,738)
15,133	**(354,029)**	**(Decrease) / increase in cash and cash equivalents**		**(136,302)**	5,826
663,605	**678,738**	Cash and cash equivalents at the beginning of the year		**261,314**	255,488
678,738	**324,709**	Cash and cash equivalents at the end of the year		**125,012**	261,314
		REPRESENTING:			
865,641	**560,067**	Cash and balances with Central Banks	4	**215,626**	333,272
195,198	**199,016**	Due from Banks maturing within three months		**76,621**	75,151
(382,101)	**(434,374)**	Due to Banks maturing within three months		**(167,235)**	(147,109)
678,738	**324,709**	**TOTAL**		**125,012**	**261,314**

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the Bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic Banking services within the Sultanate of Oman and through overseas branches in the United Arab Emirates and Egypt. In Oman the Bank operates under Banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under commercial Bank licences given by the respective Central Banks. The Bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the first quarter of year 2021. The Bank is head quartered at Azaiba, Governorate of Muscat, Sultanate of Oman and its registered address is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The Bank has a primary listing on the Muscat Stock Exchange. Its bonds and AT1 capital instruments are listed in the Irish Stock exchange.

The Bank employed 1,573 employees as of 31 December 2020 (31 December 2019 - 1,593).

2. BASIS OF PREPARATION

2.1 BASIS OF MEASUREMENT

The financial statements are prepared under the historical cost basis except for the following:

- financial instruments classified as trading and at fair value through profit or loss (FVTPL)
- financial assets at fair value through other comprehensive income;
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.4.

2.2 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the Bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 STATEMENT OF COMPLIANCE

The financial statements of the Bank have been prepared in accordance with IFRS, applicable regulations of the Central Bank of Oman and applicable requirements of the Commercial Companies Law of Oman 2019 and the Capital Market Authority of the Sultanate of Oman.

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBWs financial statements are then converted into IFRS compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

The Bank presents its statement of financial position broadly in order of liquidity.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

2. BASIS OF PREPARATION *(CONTINUED)*

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In preparation of the Bank's financial statements, management requires to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances, any revisions to estimates are recognised propestively. The significant use of judgments and estimates are as follows:

2.4.1 Going concern

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

2.4.2 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2020 pertain to IFRS 9, Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2020. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

<u>Assessment of Significant Increase in Credit Risk and credit impairment / default</u>

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes.

The Bank's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Bank has established thresholds for significant increases in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

2. BASIS OF PREPARATION *(CONTINUED)*

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Bank's ECL calculation will have forecasts of the relevant macroeconomic variables.

The Bank estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Scenarios are probability-weighted according to the Bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macro-economic variable and the respective weights under the three scenarios is periodically assessed by the Bank.

In some instances, the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Bank's Governance process for oversight.

Definition of default
The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected life
When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk on similar financial instruments and where the credit losses would not be mitigated by management actions.

Governance
In addition to the existing risk management framework, the Bank has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee comprises of senior representatives from Chief executive office, finance, risk management and internal audit and will be responsible for reviewing and approving key inputs and assumptions used in the Bank's ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Bank's financial statements.

2.4.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.4.4 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

2. BASIS OF PREPARATION *(CONTINUED)*

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

2.4.5 Investment Funds

The Bank acts as fund manager and investment advisor to investment funds. For all funds managed by the Bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the Bank as fund manager without cause, and the Bank's aggregate economic interest is in each case less than 5% per annum. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

2.5 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2020 AND RELEVANT FOR THE BANK'S OPERATIONS

For the year ended 31 December 2020, the Bank has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2020.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The adoption of these standards and interpretations has not resulted in any major changes to the Bank's accounting policies.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; the Bank has not early adopted the new and amended standards in preparing these consolidated financial statements.

2.7 CHANGE IN ACCOUNTING POLICY

On 1 January 2020, the Bank elected to change the method of accounting for Building classified as property and equipment, as the Bank believes that the cost model provides more relevant information to the users of its financial statements as it is more aligned to practices adopted by its competitors. Based on the requirement of IAS 8 the change in accounting policy from the fair value model to the cost model has been applied retrospectively and as a result the revaluation reserves has been reduced by RO 4.385 million, property and equipment has been reduced by RO 1.64 million and retained earnings has been increased by RO 2.74 million since the Bank's accounting policy for revaluation surplus was not to transfer any part of revaluation surplus to retained earnings, therefore, due to change in accounting policy the aggregate incremental charge of depreciation on revalued portion in previous years has been fully settled with revaluation reserve. The following tables summarise the impacts on the Banks financial statements.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

2. BASIS OF PREPARATION *(CONTINUED)*

2.7 CHANGE IN ACCOUNTING POLICY *(CONTINUED)*

	1 JANUARY 2019	31 DECEMBER 2019		
RO'000S	**(previously reported**	**(previously reported)**	**(adjustments)**	**(restated)**
Property and equipment	64,360	66,694	(1,647)	65,047
Other assets	3,508,562	3,578,000		3,578,000
TOTAL ASSETS	**3,572,922**	**3,644,694**	**(1,647)**	**3,643,047**
Liabilities	3,036,432	3,090,844		3,090,844
Tier 1 perpetual bond	115,500	115,500		115,500
Other non-distributable reserves	16,541	3,621	(4,385)	(764)
Retained earnings	127,176	156,155	2,738	158,893
Others	277,273	278,574		278,574
Total shareholders' equity	420,990	438,350	(1,647)	436,703
TOTAL LIABILITIES AND EQUITY	**3,572,922**	**3,644,694**	**(1,647)**	**3,643,047**
USD'000S				
Property and equipment	167,169	173,231	(4,278)	168,953
Other assets	9,113,147	9,293,507		9,293,507
TOTAL ASSETS	**9,280,316**	**9,466,738**	**(4,278)**	**9,462,460**
Liabilities	7,886,835	8,028,166		8,028,166
Tier 1 perpetual bond	300,000	300,000		300,000
Other non-distributable reserves	42,964	9,405	(11,390)	(1,985)
Retained earnings	330,328	405,598	7,112	412,710
Others	720,189	723,569		723,569
Total shareholders' equity	1,093,481	1,138,572	(4,278)	1,134,294
TOTAL LIABILITIES AND EQUITY	**9,280,316**	**9,466,738**	**(4,278)**	**9,462,460**

There is no material impact on the Bank's basic or diluted earnings per share and no impact on the total operating, investing or financing cash flows for the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

3.1 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

a. Date of recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

b. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

c. Measurement categories of financial assets and liabilities

The Bank has applied IFRS 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments at the fair value designation.

3.2 FINANCIAL ASSETS AND LIABILITIES

3.2.1 Due from Banks, Loans and advances to customers, Financial investments at amortised cost

The Bank only measures due from Banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

Business model assessment

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

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

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

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

3.2.2 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

3.2.3 Debt instruments at FVOCI

The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3.2.4 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 (Financial Instruments - Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment

3.2.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3.2.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

OR

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

OR

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3.2.7 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, under IFRS 9 – an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 26.

3.2.8 Financial liabilities

Under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

3.2.9 Derivative financial instruments and hedging activities

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

i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
ii. hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
iii. hedges of a net investment in a foreign operation (net investment hedge).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income within 'Other operating income'.

Hedge documentation, effectiveness assessment, and discontinuation accounting disclosures are provided in Note 3.10.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.3 RECLASSIFICATIONS

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2020.

3.4 DERECOGNITION OF THE FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.4 DERECOGNITION OF THE FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

3.5 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;

AND

- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.5 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(CONTINUED)*

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.6 IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

3.6.1 Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

3.6.2 Overview of the ECL principles

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.6 IMPAIRMENT OF FINANCIAL ASSETS *(CONTINUED)*

Stage 1

When financing is first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

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

Stage 3

Financing exposure considered credit-impaired. The Bank records an allowance for the LTECLs.

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

3.6.3 The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that are expected to be received.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

3.6.4 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3.6.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.6.6 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.6 IMPAIRMENT OF FINANCIAL ASSETS *(CONTINUED)*

3.6.6 Credit cards and other revolving facilities

notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products.

3.7 RESTRUCTURED FINANCIAL ASSETS

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

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

3.8 CREDIT-IMPAIRED FINANCIAL ASSETS

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

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

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3.9 WRITE-OFF

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the b ank's procedures for recovery of amounts due.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.10 HEDGE DOCUMENTATION, EFFECTIVENESS ASSESSMENT, AND DISCONTINUATION

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Bank performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

3.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with Banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 DETERMINATION OF FAIR VALUES

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 33.

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

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.12 DETERMINATION OF FAIR VALUES *(CONTINUED)*

based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

3.13 PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost or deemed cost.

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.13 PROPERTY AND EQUIPMENT *(CONTINUED)*

Right-of-use assets are presented together with property and equipment in the statement of financial position (refer note 8). Right of use assets are depreciated on a straight line basis over the lease term.

The rates of depreciation are based upon the following estimated useful lives:

- Buildings on freehold land: 25 to 40 years
- Leasehold improvements: Over the lease terms 3 to 10 years (shorter of lease term or useful life)
- Motor vehicles: 4 years
- Furniture: 3 to 10 years
- Equipment: 5 to 20 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

3.14 COLLATERAL PENDING SALE

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

3.15 DEPOSITS

All money market and customer deposits are carried at amortised cost using EIR.

3.16 OTHER BORROWED FUNDS

Other borrowings including subordinate private placements are recognised initially at fair value on transaction date. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the using EIR.

3.17 TAXATION – CURRENT AND DEFERRED

Taxation is provided for based on the relevant tax laws of the respective countries, in which the Bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

i. temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
ii. temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
iii. taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

3.18 FIDUCIARY ASSETS

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.19 PROVISIONS

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

3.20 PERPETUAL BOND

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and it is governed by the terms and conditions.

3.21 OFFSETTING

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

3.22 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated creditimpaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets,

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.22 REVENUE RECOGNITION *(CONTINUED)*

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not creditimpaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired,

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair
- value hedges of interest rate risk; and
- Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables. Interest expense presented in the statement of profit or loss and OCI includes:
- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income and from other financial instruments at FVTPL. Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Bank to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer. Fee income can be divided into the following two categories:

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.22 REVENUE RECOGNITION *(CONTINUED)*

Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

For the accounting policy for fees and commissions in the scope of IFRS 9 and for the accounting policy for onerous contracts.

TYPE OF SERVICE	NATURE AND TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS, INCLUDING SIGNIFICANT PAYMENT TERMS	REVENUE RECOGNITION POLICIES UNDER IFRS 15
Retail and corporate Banking service	The Bank provides Banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate Banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment Banking service	The Bank's investment Banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis. In addition, the Bank charges a non-refundable up-front fee when opening an account.	Revenue from asset management services is recognised over time as the services are provided. Non-refundable up-front fees give rise to material rights for future services and are recognised as revenue over the period for which a customer is expected to continue receiving asset management services

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes.

3.23 REPURCHASE AND RESALE AGREEMENTS

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to Banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with Banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.24 LEASES

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

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office property the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office property.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

i. Fixed payments, including in-substance fixed payments;

ii. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

iii. Amounts expected to be payable under a residual value guarantee; and

iv. The exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 LEASES *(CONTINUED)*

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

3.25 STAFF TERMINAL BENEFITS

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.26 SEGMENT REPORTING

The Bank's segmental reporting is based on the following operating segments: retail Banking, wholesale Banking, commercial Banking, head office and islamic. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.27 DIVIDEND ON ORDINARY SHARES

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

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

3.28 DIRECTORS' REMUNERATION

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.29 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.30 EARNINGS PER SHARE

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.31 FOREIGN CURRENCY TRANSLATION

i. Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

ii. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

iii. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

3.32 ACCEPTANCES

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

4. CASH AND BALANCES WITH CENTRAL BANKS

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
113,930	**101,094**	Cash	**38,921**	43,863
5,195	**51,948**	Treasury bills with Central Banks	**20,000**	2,000
13,613	**9,530**	Certificate of Deposit with Central Banks	**3,669**	5,241
732,903	**397,495**	Other balances with Central Banks	**153,036**	282,168
865,641	**560,067**	**CASH AND CASH EQUIVALENTS**	**215,626**	333,272
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
866,940	**561,366**	**CASH AND BALANCES WITH CENTRAL BANKS**	**216,126**	333,772

i. This capital deposit included above cannot be withdrawn without the Central Bank of Oman approval.

ii. Minimum cash reserve to be maintained with Central Bank of Oman as of 31 December 2020 is 3% of total customer's deposits and for Central Bank of UAE, is 1% of time deposits and 7% of all other deposits.

iii. ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

5. DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
65,899	**38,501**	Loans and advances to Banks	**14,823**	25,371
119,857	**71,792**	Placement with Banks	**27,640**	46,145
99,561	**135,949**	Demand balances	**52,340**	38,331
285,317	**246,242**	**DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENT**	**94,803**	109,847
(1,223)	**(226)**	Less: allowance for credit losses	**(87)**	(471)
284,094	**246,016**	**NET DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENT**	**94,716**	109,376

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

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
984	**1,223**	Balance at beginning of year	**471**	379
239	**(997)**	(Released)/ Provided during the year	**(384)**	92
1,223	**226**	**BALANCE AT END OF YEAR**	**87**	471

The credit quality and the maximum exposure to credit risk based on Bank's internal credit rating system and the year-end staging classification is disclosed in note 30.1 to the financial statements.

6. LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET)

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
278,927	**243,618**	Overdrafts	**93,793**	107,387
3,539,826	**3,628,262**	Personal loans	**1,396,881**	1,362,833
172,520	**194,455**	Loans against trust receipts	**74,865**	66,420
31,836	**25,668**	Bills discounted	**9,882**	12,257
3,560,906	**3,813,851**	Other loans	**1,468,333**	1,370,949
7,584,015	**7,905,854**	**GROSS LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS FOR CUSTOMERS**	**3,043,754**	2,919,846
(307,244)	**(404,914)**	Allowance for credit losses	**(155,892)**	(118,289)
7,276,771	**7,500,940**	**NET LOANS AND ADVANCES**	**2,887,862**	2,801,557

Gross loans, advances and financing activities for customers include RO 121 million (USD 315 million) due from related parties at 31 December 2020 (31 December 2019 – RO 140 million - USD362 million) (refer note 27).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

6. LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET) *(CONTINUED)*

The movement in the provision for impairment of loans, advances and Islamic financing assets for customers is set out below:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
338,644	**307,244**	Balance at beginning of year	**118,289**	130,378
66,829	**120,527**	Provided during the year	**46,403**	25,729
(8,579)	**(8,644)**	Recovered/ released during the year	**(3,328)**	(3,303)
(89,694)	**(14,213)**	Written off during the year	**(5,472)**	(34,532)
44	**-**	Translation difference	**-**	17
307,244	**404,914**	**BALANCE AT END OF YEAR**	**155,892**	118,289

Provided during the period includes contractual interest reserved for RO 6.67 million (31 December 2019 – RO 7.65 million).

Recovered/released during the period includes recovery of reserved interest for RO 0.92 million (31 December 2019 – RO 1.60 million).

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

As of 31 December 2020, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 169 million (31 December 2019 – RO 144 million).

The credit quality and the maximum exposure to credit risk based on Bank's internal credit rating system and the year-end staging classification is disclosed in note 30.1 to the financial statements.

The table below analyses the concentration of gross loans and advances by various sectors.

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
3,539,826	**3,628,262**	Personal	**1,396,881**	1,362,833
572,782	**618,852**	Service	**238,258**	220,521
752,673	**576,642**	Financial institutions	**222,007**	289,779
574,013	**501,158**	Manufacturing	**192,946**	220,995
348,161	**481,657**	Electricity, gas and water	**185,438**	134,042
261,091	**479,143**	Transport and communication	**184,470**	100,520
437,779	**388,816**	Construction	**149,694**	168,545
478,426	**373,200**	Wholesale and retail trade	**143,682**	184,194
247,475	**252,366**	Others	**97,161**	95,278
175,415	**250,545**	Mining and quarrying	**96,460**	67,535
162,329	**199,634**	Import trade	**76,859**	62,497
23,626	**143,470**	Government	**55,236**	9,096
10,418	**12,109**	Agriculture	**4,662**	4,011
7,584,015	**7,905,854**	**TOTAL GROSS LOANS**	**3,043,754**	**2,919,846**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

6. LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET) *(CONTINUED)*

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
7,306,183	**7,659,688**	Sultanate of Oman	**2,948,980**	2,812,880
266,229	**238,429**	United Arab Emirates	**91,795**	102,498
11,603	**7,737**	Others	**2,979**	4,468
7,584,015	**7,905,854**	**TOTAL**	**3,043,754**	2,919,846

7. FINANCIAL INVESTMENTS

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
		INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)		
12,104	**1,231**	Quoted investments-Oman	**474**	4,660
1,019	**1,035**	Quoted investments-foreign	**398**	392
6,550	**6,968**	Unquoted investments	**2,683**	2,522
19,673	**9,234**	**TOTAL FVTPL**	**3,555**	7,574
		INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPHRENESIVE INCOME (FVOCI)		
		FVOCI – Equity investments		
34,411	**37,729**	Quoted investments- Oman	14,526	13,248
51,257	**47,319**	Quoted investments- foreign	18,218	19,734
859	**842**	Unquoted investments	324	331
86,527	**85,890**	**Total FVOCI – equity instruments**	**33,068**	33,313
		FVOCI - Debt instruments		
10,309	**10,174**	Government development bonds- Oman	**3,917**	3,969
10,309	**10,174**	**Total FVOCI – debt instruments**	**3,917**	3,969
96,836	**96,064**	**TOTAL FVOCI**	**36,985**	37,282
		INVESTMENTS MEASURED AT AMORTISED COST		
564,166	**626,174**	Government development bonds- Oman	**241,077**	217,204
27,211	**42,642**	Government sukuk- Oman	**16,417**	10,476
40,708	**41,759**	Quoted investments- Oman	**16,077**	15,673
12,591	**12,314**	Government development bonds-foreign	**4,741**	4,847
644,676	**722,889**	**TOTAL – AMORTISED COST**	**278,312**	**248,200**
761,185	**828,187**	**TOTAL FINANCIAL INVESTMENTS**	**318,852**	293,056
(1,317)	**(826)**	Less: Impairment	**(318)**	(507)
759,868	**827,361**	**TOTAL FINANCIAL INVESTMENTS**	**318,534**	292,549

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

7. FINANCIAL INVESTMENTS *(CONTINUED)*

Movement in allowances for the credit losses for debt securities at fair value through other comprehensive income and amortised cost:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
1,535	**1,317**	Balance at beginning of year	**507**	591
(218)	**(491)**	Released during the year	**(189)**	(84)
1,317	**826**	**BALANCE AT END OF YEAR**	**318**	507

Details of significant investments

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

BANK'S PORTFOLIO	CARRYING VALUE		BANK'S PORTFOLIO	CARRYING VALUE
%	USD'000		%	RO'000
		2020		
82%	**678,990**	**GOVERNMENT DEVELOPMENT BONDS-OMAN**	**82%**	**261,411**
		2019		
79%	601,691	GOVERNMENT DEVELOPMENT BONDS-OMAN	79%	231,651

In 2020, the Bank received dividends of RO 1.61 million from its FVOCI equities (2019: RO 1.38 million for FVOCI equities), recorded as other operating income.

There have been no significant changes in debt instruments measured at FVOCI gross balances and correspondingly, no significant changes in the ECL over the year.

The fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification are disclosed in note 30.1 to the financial statements.

The credit rating profile of investment debt securities, based on the lowest rating assigned by the major international rating agencies, was as follows:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
24,281	**24,289**	Rated	**9,351**	9,348
16,429	**16,429**	Unrated	**6,325**	6,325
614,281	**692,348**	Sovereign	**266,554**	236,498
654,991	**733,066**		**282,230**	252,171

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

7. FINANCIAL INVESTMENTS *(CONTINUED)*

The movement in investment securities are summarised below:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
		MOVEMENT OF INVESTMENTS DURING THE YEAR		
600,387	**759,868**	Balance at beginning of year	**292,549**	231,149
184,773	**100,598**	Additions	**38,730**	71,137
(20,483)	**(24,837)**	Disposals and redemption	**(9,562)**	(7,886)
(4,049)	**(9,009)**	Loss from changes in Fair Value	**(3,468)**	(1,559)
570	**(1,124)**	Reversal of impairment Losses	**(433)**	220
(1,022)	**1,621**	Amortization of discount/premium	**624**	(393)
(309)	**244**	Realised gain / (loss) on sale	**94**	(119)
759,868	**827,361**	**BALANCE AT END OF YEAR**	**318,534**	292,549

8. PROPERTY AND EQUIPMENT

	FREEHOLD LAND AND BUILDINGS AND LEASEHOLD IMPROVEMENT	MOTOR VEHICLES, FURNITURE AND EQUIPMENT	CAPITAL WORK IN PROGRESS	RIGHT OF USE ASSETS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000
CARRYING AMOUNT:					
Balance as at 1 January 2020, net of accumulated depreciation	**46,915**	**13,709**	**1,017**	**3,406**	**65,047**
Additions	**16**	**1,169**	**1,142**	**1,704**	**4,031**
Disposals	**-**	**(40)**	**-**	**-**	**(40)**
Transfers	**235**	**684**	**(919)**	**-**	**-**
Translation difference	**3**	**-**	**-**	**-**	**3**
Depreciation	**(1,317)**	**(3,192)**	**-**	**(1,964)**	**(6,473)**
Balance at 31 December 2020, net of accumulated depreciation	**45,852**	**12,330**	**1,240**	**3,146**	**62,568**
At cost	**61,024**	**45,192**	**1,240**	**6,985**	**114,441**
Accumulated depreciation	**(15,172)**	**(32,862)**	**-**	**(3,839)**	**(51,873)**
NET CARRYING VALUE AT 31 DECEMBER 2020	**45,852**	**12,330**	**1,240**	**3,146**	**62,568**
NET CARRYING VALUE AT 31 DECEMBER 2020 – USD'000	**119,096**	**32,026**	**3,221**	**8,171**	**162,514**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

8. PROPERTY AND EQUIPMENT *(CONTINUED)*

	FREEHOLD LAND AND BUILDINGS AND LEASEHOLD IMPROVEMENT	MOTOR VEHICLES, FURNITURE AND EQUIPMENT	CAPITAL WORK IN PROGRESS	RIGHT OF USE ASSETS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000
CARRYING AMOUNT:					
Balance as at 1 January 2019, net of accumulated depreciation	50,054	12,040	2,266	-	64,360
Restatement (note 2.7)	(1,647)	-	-	-	(1,647)
Restated balance at 1 January 2019, net of accumulated depreciation	48,407	12,040	2,266	-	62,713
Impact of adopting IFRS 16	-	-	-	4,918	4,918
Additions	128	1,099	2,433	-	3,660
Disposals	(4)	(16)	(130)	-	(150)
Transfers	139	3,413	(3,552)	-	-
Translation difference	12	1	-	-	13
Depreciation	(1,767)	(2,828)	-	(1,512)	(6,107)
Balance at 31 December 2019, net of accumulated depreciation	46,915	13,709	1,017	3,406	65,047
At cost	60,844	44,862	1,017	4,918	111,641
Accumulated depreciation	(13,929)	(31,153)	-	(1,512)	(46,594)
NET CARRYING VALUE AT 31 DECEMBER 2019	46,915	13,709	1,017	3,406	65,047
NET CARRYING VALUE AT 31 DECEMBER 2019 – USD'000	121,857	35,607	2,642	8,847	168,953

Land and buildings above includes owned land and buildings at net carrying value of RO 46.57 million – USD 120.96 million, (2019 – RO 47.56 million- USD 123.53 million) out of which freehold land at a cost of RO 8.56 million – USD 22.22 million (2019 – RO 8.56 million – USD 22.22 million) is not depreciated.

The Bank leases a number of branch and office premises. The leases run between 1 year to 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated periodicly to reflect market rentals.

The Bank also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has not recognised right-of-use assets and lease liabilities for these leases.

9. OTHER ASSETS

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
60,247	**67,419**	Interest receivable and others	**25,956**	23,195
6,868	**11,753**	Positive fair value of derivatives (note 34)	**4,525**	2,644
38,719	**58,088**	Customers' indebtedness for acceptances	**22,364**	14,907
105,834	**137,260**		**52,845**	40,746

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

10. DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
728,000	**733,031**	Borrowings	**282,217**	280,280
9,106	**16,899**	Other balances	**6,506**	3,506
737,106	**749,930**		**288,723**	283,786

11. CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
2,283,145	**2,239,104**	Current accounts	**862,055**	879,011
1,556,099	**1,653,083**	Savings accounts	**636,437**	599,098
2,736,127	**2,671,914**	Term deposits	**1,028,687**	1,053,409
6,575,371	**6,564,101**		**2,527,179**	2,531,518

12. EURO MEDIUM TERM NOTES

The Bank has established Euro medium term notes programme for USD 1,500 million. As at reporting period end, the Bank has an issuance for RO 192.5 million (USD 500 million). (31 December 2019 – RO 192.5 million – USD 500 million). These Bonds are listed in the Irish Stock Exchange and governed by English law.

13. OTHER LIABILITIES

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
109,218	**131,857**	Interest payable and others	**50,765**	42,049
7,255	**5,557**	Lease commitment	**2,139**	2,793
6,021	**6,324**	Staff entitlements	**2,435**	2,318
38,719	**58,088**	Liabilities under acceptances	**22,364**	14,907
15,652	**7,403**	Allowances for credit losses for loan Commitments and Financial Guarantees	**2,850**	6,026
3,621	**10,075**	Negative fair value of derivatives (note 34)	**3,879**	1,394
863	**41**	Deferred tax liability (note 14)	**16**	332
181,349	**219,345**		**84,448**	69,819

Staff entitlements are as follows:

5,208	**5,475**	End of service benefits	**2,108**	2,005
813	**849**	Other liabilities	**327**	313
6,021	**6,324**		**2,435**	2,318

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

13. OTHER LIABILITIES *(CONTINUED)*

Movement in the allowance for credit losses - non-funded loans, advances and financing activities for customers:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
23,957	**15,652**	Balance at beginning of year	**6,026**	9,223
(8,305)	**(8,249)**	Released during the year	**(3,176)**	(3,197)
15,652	**7,403**	**BALANCE AT YEAR END**	**2,850**	6,026

14. TAXATION

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
		TAX EXPENSE		
12,423	**9,610**	Current year	**3,700**	4,783
1,922	**(104)**	Deferred tax adjustment	**(40)**	740
14,345	**9,506**		**3,660**	5,523

The Bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of consolidated taxable income (2019: 15% of consolidated taxable income)
- United Arab Emirates: 20% of taxable income
- Egypt: 22.50% of taxable income

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
147,931	**56,645**	Accounting profit	**21,808**	56,954
22,190	**8,496**	Tax at applicable rate	**3,271**	8,543
1,832	**2,566**	Non-deductible expenses	**988**	705
(1,292)	**(3,912)**	Tax exempt revenues	**(1,506)**	(497)
(9,255)	**-**	Tax allowance related to previous years	**-**	(3,563)
(1,052)	**2,460**	Others	**947**	(405)
12,423	**9,610**		**3,700**	4,783

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

14. TAXATION *(CONTINUED)*

The Bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2013.

Management believes that additional taxes, if any, in respect of open tax assessments would not be significant to the Bank's financial position as at 31 December 2020.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2019.

Tax liability

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
12,423	**9,610**	Income tax and other taxes – Other Comprehensive income	**3,700**	4,783
21,917	**15,517**	Income tax and other taxes – Prior years	**5,974**	8,438
-	**(275)**	Income tax and other taxes – Retained earnings	**(106)**	-
34,340	**24,852**		**9,568**	13,221

Recognised deferred tax assets/(liabilities)

Deferred tax liabilities are attributable to the following:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
26	**130**	Deductible temporary differences relating to provisions and revaluation of buildings	**50**	10
(889)	**(171)**	FVOCI investments	**(66)**	(342)
(863)	**(41)**		**(16)**	(332)

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

14. TAXATION *(CONTINUED)*

Movement of deferred tax liability

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
1,906	**(863)**	Balance at the beginning of the year	**(332)**	734
(1,922)	**103**	Reversed during the year	**39**	(740)
(847)	**719**	Tax effect of equity investments at FVOCI – net change in fairvalue	**277**	(326)
(863)	**(41)**		**(16)**	(332)

15. SHARE CAPITAL

The Authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2019 – 2,000,000,000 of RO 0.100 each). At 31 December 2020, 1,625,946,355 shares of RO 0.100 each (2019 – 1,625,946,355 shares of RO 0.100 each) have been issued and fully paid.

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

	2020		2019	
	No.of shares '000	% Holding	No.of shares '000	% Holding
The Commercial Bank of Qatar	**567,453**	**34.90%**	567,453	34.90%
Suhail Bahwan Group (Holdings) L.L.C	**239,734**	**14.74%**	239,734	14.74%
Civil Service Employee Pension Fund	**182,789**	**11.24%**	183,441	11.28%

The percentage shareholding is calculated based on the total shares of the Bank outstanding at the reporting date.

16. SHARE PREMIUM

The share premium of RO 34.5 million (USD 89.5 million) represents the premium collected on issue of 10 million shares by the Bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the Bank's shareholders at the Bank's Extraordinary General Meeting held in 2005 at that time the face value of the Bank's share was RO 1.

17. LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2020, the legal reserve of Oman has reached one third of the issued capital.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

18. OTHER RESERVES

	FVOCI	IMPAIRMENT RESERVE	TOTAL
	RO '000	RO '000	RO '000
At 1 January 2020	**(5,825)**	**5,061**	**(764)**
Net movement on FVOCI	**(2,988)**	**-**	**(2,988)**
Tax effect of net results on FVOCI	**277**	**-**	**277**
Transfer to retained earnings – realised FVOCI	**(480)**	**-**	**(480)**
Transfer from retained earnings	**-**	**5,519**	**5,519**
AT 31 DECEMBER 2020	**(9,016)**	**10,580**	**1,564**
AT 31 DECEMBER 2020 (USD'000S)	**(23,419)**	**27,481**	**4,062**

i. The Impairment reserve represents in accordance with CBO requirements, where the aggregate provision on portfolio and specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

	FVOCI	REVALUATION RESERVE	SUBORDINATED DEBT RESERVE	IMPAIRMENT RESERVE	TOTAL
	RO '000	RO '000	RO '000	RO '000	RO '000
At 1 January 2019	(4,844)	4,385	17,000	-	16,541
Restatement (note 2.7)	-	(4,385)	-	-	(4,385)
Restated balance at 1 January 2019	(4,844)	-	17,000	-	12,156
Net movement on FVOCI	(655)	-	-	-	(655)
Tax effect of net results on FVOCI	(326)	-	-	-	(326)
Transfer from retained earnings	-	-	-	5,061	5,061
Transfer to retained earnings	-	-	(17,000)	-	(17,000)
AT 31 DECEMBER 2019	(5,825)	-	-	5,061	(764)
AT 31 DECEMBER 2019 USD'000	(15,130)	-	-	13,145	(1,985)

i. The subordinated debt reserve represents an annual transfer towards subordinated debt. During the current year, as the loan has been fully repaid, the reserve has been transferred to retained earnings (note 15).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

19. TIER 1 PERPETUAL BOND

The Bank, in 2015 issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000. (R.O 115,500,000).

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on any interest payment date on or after the first call date (18 November 2020) subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875% per annum which is the aggregate of margin and 5-year mid-swap rate that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. The current applicable rate is 6.653% per annum, payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the Bank's discretion.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

20. DIVIDENDS PAID AND PROPOSED

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

At the Annual General Meeting held in March 2020, a cash dividend of RO 0.017 per share totalling RO 27.3 million (USD 0.04 per share totalling USD 70.95 million) for the year ended 31 December 2019 was approved and subsequently paid.

21. CONTINGENT LIABILITIES

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

21.1 CONTINGENT LIABILITIES AND COMMITMENTS

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
902,855	**732,382**	Guarantees	**281,967**	347,599
332,905	**101,143**	Documentary letters of credit	**38,940**	128,168
1,235,760	**833,525**		**320,907**	475,767

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

21. CONTINGENT LIABILITIES *(CONTINUED)*

21.1 CONTINGENT LIABILITIES AND COMMITMENTS

The table below analyses the concentration of contingent liabilities by economic sector

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
436,737	**403,569**	Construction	**155,374**	168,144
359,396	**138,948**	Financial Institutions	**53,495**	138,367
98,157	**85,486**	Wholesale and Retail Trade	**32,912**	37,790
149,309	**50,818**	Manufacturing	**19,565**	57,484
46,030	**48,642**	Transport and Communication	**18,727**	17,722
94,472	**48,464**	Others	**18,659**	36,372
44,448	**33,151**	Service	**12,763**	17,112
1,442	**17,104**	Mining & Quarrying	**6,585**	555
4,716	**6,382**	Electricity, Gas & Water	**2,457**	1,816
618	**740**	Personal	**285**	238
435	**221**	Agriculture	**85**	167
1,235,760	**833,525**		**320,907**	475,767

Guarantees include RO 6.95 million – USD 18 million (Dec 2019: RO 1.58 million – USD 4.1 million) relating to non-performing loans.

21.2 COMMITMENTS

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
784,290	**458,761**	Undrawn commitment	**176,623**	301,952
3,821	**4,680**	Capital expenditure	**1,802**	1,471

21.3 BRANCHES

The Bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the respective Central Banks.

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
106,282	**106,282**	UAE branch	**40,918**	40,918
50,000	**50,000**	Egypt branches	**19,250**	19,250
156,282	**156,282**		**60,168**	60,168

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

21. CONTINGENT LIABILITIES *(CONTINUED)*

21.4 LEGAL CLAIMS

By nature of the Banking sector, litigation whether by or against the Bank is expected. In order to properly manage such litigation, the Bank has in place effective mechanism and controls. The Bank does not have any major/material litigation pending in a court of law in Oman or outside either instituted by or against the Bank, other than normal cases filed by or against customers in the normal course of business. However, there are certain unresolved legal claims filed against the Bank which are not expected to have any significant implication on the Bank's financial statements.

21.5 FIDUCIARY ASSETS

The fair value of securities as of 31 December 2020 held on trust for customer's amounts to RO 71.5 million – USD 185.7 million (2019 – RO 52.9 million – USD 137.4 million).

22. INTEREST INCOME

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
381,023	**378,618**	Interest from customers	**145,768**	146,694
13,423	**4,831**	Interest from Banks	**1,860**	5,168
30,811	**40,424**	Interest from investments	**15,563**	11,862
425,257	**423,873**		**163,191**	163,724

Interest bearing assets have an overall effective annual rate of 5.20% per annum for the year ended 31 December 2020 (31 December 2019 – 5.40% per annum).

23. INTEREST EXPENSE

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
128,239	**143,000**	Interest to customers	**55,055**	49,372
24,829	**25,774**	Interest to banks	**9,923**	9,559
36,997	**29,400**	Interest on EMTN	**11,319**	14,244
190,065	**198,174**		**76,297**	73,175

For the year ended 31 December 2020, the average overall effective annual cost of funds was 2.62% per annum (2019 –2.59% per annum).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

24. OTHER OPERATING INCOME

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
13,670	**9,603**	Service charges	**3,697**	5,263
(309)	**244**	Profit/(loss) on investments at FVTPL	**94**	(119)
17,494	**16,992**	Net gains from foreign exchange dealings	**6,542**	6,735
3,584	**4,187**	Dividend income	**1,612**	1,380
3,841	**3,050**	Miscellaneous income	**1,174**	1,479
38,280	**34,076**		**13,119**	14,738

25. OTHER OPERATING EXPENSES

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
12,138	**10,892**	Establishment costs	**4,193**	4,673
35,790	**37,301**	Operating and administration costs	**14,361**	13,779
750	**675**	Directors' remuneration and sitting fees	**260**	289
48,678	**48,868**		**18,814**	18,741

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

26.1 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2020:

Impairment charge and provision held as of 31 December 2020

AS PER CBO NORMS	AS PER IFRS 9	DIFFERENCE	PARTICULAR	AS PER CBO NORMS	AS PER IFRS 9	DIFFERENCE
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
-	**84,842**	**NA**	Impairment Loss charged to profit and loss	-	**32,664**	**NA**
445,701	**413,371**	**(32,330)**	Provisions required	**171,595**	**159,148**	**(12,447)**
-	**5.55**	**5.55**	Gross non-performing loan ratio (percentage)	-	**5.55**	**5.55**
-	**5.02**	**5.02**	Net non-performing loan ratio (percentage)	-	**5.02**	**5.02**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.1 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2020:

Mapping of IFRS 9 and CBO norms

RO'000

ASSET CLASSIFICATION AS PER CBO NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS AMOUNT	PROVISION REQUIRED AS PER CBO NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET AMOUNT AS PER IFRS 9	RESERVE INTEREST AS PER CBO NORMS
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,253,382	31,337	11,840	19,497	2,241,542	
	Stage 2	508,332	5,428	10,522	(5,094)	497,810	
	Stage 3				-	-	
SUBTOTAL		2,761,714	36,765	22,362	14,403	2,739,352	-
Special Mention	Stage 1				-	-	
	Stage 2	113,064	1,146	21,104	(19,958)	91,960	
	Stage 3				-	-	
SUBTOTAL		113,064	1,146	21,104	(19,958)	91,960	-
Substandard	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	6,285	1,558	2,863	(1,254)	3,422	51
SUBTOTAL		6,285	1,558	2,863	(1,254)	3,422	51
Doubtful	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	28,325	12,261	16,837	(3,718)	11,488	858
SUBTOTAL		28,325	12,261	16,837	(3,718)	11,488	858
Loss	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	134,366	102,849	92,726	26,229	41,640	16,106
SUBTOTAL		134,366	102,849	92,726	26,229	41,640	16,106
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	572,401	-	1,315	(1,315)	571,086	
	Stage 2	127,063	-	1,940	(1,940)	125,123	
	Stage 3				-	-	
SUBTOTAL		699,464	-	3,255	(3,255)	696,209	-
TOTAL	Stage 1	2,825,783	31,337	13,155	18,182	2,812,628	-
	Stage 2	748,459	6,574	33,566	(26,992)	714,893	-
	Stage 3	168,976	116,668	112,426	21,257	56,550	17,015
	TOTAL	3,743,218	154,579	159,147	12,447	3,584,071	17,015

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.1 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2020:

Mapping of IFRS 9 and CBO norms

RO'000

ASSET CLASSIFICATION AS PER CBO NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS AMOUNT	PROVISION REQUIRED AS PER CBO NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET AMOUNT AS PER IFRS 9	RESERVE INTEREST AS PER CBO NORMS
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	5,852,940	81,395	30,752	50,643	5,822,188	-
	Stage 2	1,320,343	14,099	27,330	(13,231)	1,293,013	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		7,173,283	95,494	58,082	37,412	7,115,201	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	293,673	2,977	54,816	(51,839)	238,857	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		293,673	2,977	54,816	(51,839)	238,857	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	16,325	4,047	7,436	(3,257)	8,889	132
SUBTOTAL		16,325	4,047	7,436	(3,257)	8,889	132
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	73,571	31,847	43,732	(9,656)	29,839	2,229
SUBTOTAL		73,571	31,847	43,732	(9,656)	29,839	2,229
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	349,003	267,140	240,848	68,126	108,155	41,834
SUBTOTAL		349,003	267,140	240,848	68,126	108,155	41,834
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,486,756	-	3,416	(3,416)	1,483,340	-
	Stage 2	330,034	-	5,039	(5,039)	324,995	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		1,816,790	-	8,455	(8,455)	1,808,335	-
TOTAL	Stage 1	7,339,696	81,395	34,168	47,227	7,305,528	-
	Stage 2	1,944,050	17,076	87,185	(70,109)	1,856,865	-
	Stage 3	438,899	303,034	292,016	55,213	146,883	44,195
	TOTAL	9,722,645	401,505	413,369	32,331	9,309,276	44,195

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.1 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2019:

Impairment charge and provision held as of 31 December 2019

DIFFERENCE	AS PER IFRS 9	AS PER CBO NORMS	PARTICULAR	AS PER CBO NORMS	AS PER IFRS 9	DIFFERENCE
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
-	30,106	30,106	Impairment Loss charged to profit and loss	11,591	11,591	-
14,742	325,436	310,694*	Provisions required	119,617*	125,293	5,676
-	3.62	3.62	Gross non-performing loan ratio (percentage)	3.62	3.62	-
0.16	1.56	1.4	Net non-performing loan ratio (percentage)	1.4	1.56	0.16

*Excludes contractual interest reserve amounting 11.63 million (USD 30.21 million)

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.1 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2019:

Mapping of IFRS 9 and CBO norms

RO'000

ASSET CLASSIFICATION AS PER CBO NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS AMOUNT	PROVISION REQUIRED AS PER CBO NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET AMOUNT AS PER IFRS 9	RESERVE INTEREST AS PER CBO NORMS
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,287,046	31,613	12,396	19,218	2,274,651	-
	Stage 2	411,847	4,597	12,582	(7,986)	399,264	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		2,698,893	36,210	24,978	11,232	2,673,915	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	77,343	824	4,862	(4,038)	72,481	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		77,343	824	4,862	(4,038)	72,481	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	20,476	5,061	11,336	(6,042)	9,140	233
SUBTOTAL		20,476	5,061	11,336	(6,042)	9,140	233
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	27,521	10,068	10,945	(220)	16,576	657
SUBTOTAL		27,521	10,068	10,945	(220)	16,576	657
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	95,612	67,456	66,168	12,028	29,444	10,740
SUBTOTAL		95,612	67,456	66,168	12,028	29,444	10,740
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	583,716	-	2,091	(2,091)	581,625	-
	Stage 2	152,395	-	4,913	(4,913)	147,482	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		736,111	-	7,004	(7,004)	729,107	-
TOTAL	Stage 1	2,870,762	31,613	14,487	17,127	2,856,276	-
	Stage 2	641,585	5,421	22,357	(16,937)	619,227	-
	Stage 3	143,609	82,585	88,449	5,766	55,160	11,630
	TOTAL	**3,655,956**	**119,619**	**125,293**	**5,956**	**3,530,663**	**11,630**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.1 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2019:

Mapping of IFRS 9 and CBO norms

							USD'000
ASSET CLASSIFICATION AS PER CBO NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS AMOUNT	PROVISION REQUIRED AS PER CBO NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET AMOUNT AS PER CBO	RESERVE INTEREST AS PER CBO NORMS
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Standard	Stage 1	5,940,379	82,111	32,194	49,917	5,908,185	-
	Stage 2	1,069,735	11,938	32,683	(20,745)	1,037,052	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		7,010,114	94,049	64,877	29,172	6,945,237	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	200,890	2,141	12,630	(10,489)	188,260	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		200,890	2,141	12,630	(10,489)	188,260	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	53,185	13,145	29,445	(15,695)	23,740	605
SUBTOTAL		53,185	13,145	29,445	(15,695)	23,740	605
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	71,484	26,150	28,428	(571)	43,056	1,707
SUBTOTAL		71,484	26,150	28,428	(571)	43,056	1,707
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	248,342	175,209	171,865	31,240	76,477	27,896
SUBTOTAL		248,342	175,209	171,865	31,240	76,477	27,896
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,516,145	-	5,432	(5,432)	1,510,713	-
	Stage 2	395,831	-	12,761	(12,761)	383,070	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		1,911,976	-	18,193	(18,193)	1,893,783	-
	Stage 1	7,456,524	82,111	37,626	44,485	7,418,898	-
	Stage 2	1,666,456	14,079	58,074	(43,995)	1,608,382	-
	Stage 3	373,011	214,504	229,738	14,974	143,273	30,208
	TOTAL	9,495,991	310,694	325,438	15,464	9,170,553	30,208

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.2 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2020:

Restructured loans

							RO'000
ASSET CLASSIFICATION AS PER CBO'S NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS CARRYING AMOUNT	PROVISION REQUIRED AS PER CBO'S NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET CARRYING AMOUNT AS PER IFRS 9	RESERVE INTEREST AS PER CBO'S NORMS
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**46,605**	**806**	**4,382**	**(3,576)**	**42,223**	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**46,605**	**806**	**4,382**	**(3,576)**	**42,223**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**37,048**	**29,484**	**27,055**	**5,684**	**9,993**	**3,255**
SUBTOTAL		**37,048**	**29,484**	**27,055**	**5,684**	**9,993**	**3,255**
	Stage 1	-	-	-	-	-	-
	Stage 2	**46,605**	**806**	**4,382**	**(3,576)**	**42,223**	-
	Stage 3	**37,048**	**29,484**	**27,055**	**5,684**	**9,993**	**3,255**
	TOTAL	**83,653**	**30,290**	**31,437**	**2,108**	**52,216**	**3,255**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.2 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2020:

Restructured loans

							USD'000
ASSET CLASSIFICATION AS PER CBO'S NORMS	**ASSET CLASSIFICATION AS PER IFRS 9**	**GROSS CARRYING AMOUNT**	**PROVISION REQUIRED AS PER CBO'S NORMS**	**PROVISION HELD AS PER IFRS 9**	**DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9**	**NET CARRYING AMOUNT AS PER IFRS 9**	**RESERVE INTEREST AS PER CBO'S NORMS**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**121,052**	**2,094**	**11,382**	**(9,288)**	**109,670**	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**121,052**	**2,094**	**11,382**	**(9,288)**	**109,670**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**96,229**	**76,582**	**70,273**	**14,764**	**25,956**	**8,455**
SUBTOTAL		**96,229**	**76,582**	**70,273**	**14,764**	**25,956**	**8,455**
	Stage 1	-	-	-	-	-	-
	Stage 2	**121,052**	**2,094**	**11,382**	**(9,288)**	**109,670**	-
	Stage 3	**96,229**	**76,582**	**70,273**	**14,764**	**25,956**	**8,455**
	TOTAL	**217,281**	**78,676**	**81,655**	**5,476**	**135,626**	**8,455**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.2 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2019:

Restructured loans

							RO'000
ASSET CLASSIFICATION AS PER CBO'S NORMS	**ASSET CLASSIFICATION AS PER IFRS 9**	**GROSS CARRYING AMOUNT**	**PROVISION REQUIRED AS PER CBO'S NORMS**	**PROVISION HELD AS PER IFRS 9**	**DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9**	**NET CARRYING AMOUNT AS PER IFRS 9**	**RESERVE INTEREST AS PER CBO'S NORMS**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	12,340	221	84	137	12,256	
	Stage 2	29,842	458	2,711	(2,253)	27,131	
	Stage 3	-	-	-	-	-	
SUBTOTAL		42,182	679	2,795	(2,116)	39,387	-
Classified as non-performing	Stage 1	-	-	-	-	-	
	Stage 2	-	-	-	-	-	
	Stage 3	34,902	14,219	15,323	433	19,579	1,537
SUBTOTAL		34,902	14,219	15,323	433	19,579	1,537
	Stage 1	12,340	221	84	137	12,256	-
	Stage 2	29,842	458	2,711	(2,253)	27,131	-
	Stage 3	34,902	14,219	15,323	433	19,579	1,537
	TOTAL	77,084	14,898	18,118	(1,683)	58,966	1,537

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.2 COMPARISON OF IMPAIRMENT PROVISIONS IN ACCORDANCE WITH IFRS 9 AND REGULATORY PROVISION UNDER CENTRAL BANK OF OMAN'S (CBO) REQUIREMENT AS AT 31 DECEMBER 2019:

Restructured loans

							USD'000
ASSET CLASSIFICATION AS PER CBO'S NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS CARRYING AMOUNT	PROVISION REQUIRED AS PER CBO'S NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET CARRYING AMOUNT AS PER IFRS 9	RESERVE INTEREST AS PER CBO'S NORMS
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	32,052	574	218	356	31,834	-
	Stage 2	77,512	1,190	7,042	(5,852)	70,470	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		109,564	1,764	7,260	(5,496)	102,304	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	90,655	36,932	39,800	1,124	50,855	3,992
SUB TOTAL		90,655	36,932	39,800	1,124	50,855	3,992
	Stage 1	32,052	574	218	356	31,834	-
	Stage 2	77,512	1,190	7,042	(5,852)	70,470	-
	Stage 3	90,655	36,932	39,800	1,124	50,855	3,992
	TOTAL	200,219	38,696	47,060	(4,372)	153,159	3,992

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

26.3 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2020

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO' 000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Loans and Advances to Customers	**2,253,382**	**621,396**	**168,976**	**3,043,754**
Investment Securities (Debt)	**318,852**			**318,852**
Loan Commitments and Financial Guarantees	**370,466**	**127,063**		**497,529**
Due from Banks, Central Banks and Other Financial Assets	**94,803**			**94,803**
	3,037,503	**748,459**	**168,976**	**3,954,938**
OPENING BALANCE - AS AT 1 JANUARY 2020				
Loans and Advances to Customers	**12,395**	**17,445**	**88,449**	**118,289**
Investment Securities (Debt)	**507**			**507**
Loan Commitments and Financial Guarantees	**1,114**	**4,912**		**6,026**
Due from Banks, Central Banks and Other Financial Assets	**471**			**471**
	14,487	**22,357**	**88,449**	**125,293**
NET TRANSFER BETWEEN STAGES				
Loans and Advances to Customers	**(708)**	**(15,514)**	**16,222**	**-**
Investment Securities (Debt)				**-**
Loan Commitments and Financial Guarantees	**-**	**-**		**-**
Due from Banks, Central Banks and Other Financial Assets				**-**
	(708)	**(15,514)**	**16,222**	**-**
CHARGE FOR THE PERIOD (NET)				
Loans and Advances to Customers	**153**	**29,695**	**13,227**	**43,075**
Investment Securities (Debt)	**(189)**	**-**	**-**	**(189)**
Loan Commitments and Financial Guarantees	**(204)**	**(2,972)**	**-**	**(3,176)**
Due from Banks, Central Banks and Other Financial Assets	**(384)**	**-**	**-**	**(384)**
	(624)	**26,723**	**13,227**	**39,326**
WRITE OFF FOR THE PERIOD				
Loans and Advances to Customers	**-**	**-**	**(5,472)**	**(5,472)**
	-	**-**	**(5,472)**	**(5,472)**
CLOSING BALANCE - AS AT 31 DECEMBER 2020				
Loans and Advances to Customers	**11,840**	**31,626**	**112,426**	**155,892**
Investment Securities (Debt)	**318**	**-**	**-**	**318**
Loan Commitments and Financial Guarantees	**910**	**1,940**	**-**	**2,850**
Due from Banks, Central Banks and Other Financial Assets	**87**	**-**	**-**	**87**
	13,155	**33,566**	**112,426**	**159,147**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.3 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2020

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	USD' 000	USD' 000	USD' 000	USD' 000
EXPOSURE SUBJECT TO ECL				
Loans and Advances to Customers	**5,852,939**	**1,614,016**	**438,899**	**7,905,854**
Investment Securities (Debt)	**828,187**	**-**	**-**	**828,187**
Loan Commitments and Financial Guarantees	**962,249**	**330,034**	**-**	**1,292,283**
Due from Banks, Central Banks and Other Financial Assets	**246,242**	**-**	**-**	**246,242**
	7,889,617	**1,944,050**	**438,899**	**10,272,566**
OPENING BALANCE - AS AT 1 JANUARY 2020				
Loans and Advances to Customers	**32,195**	**45,312**	**229,737**	**307,244**
Investment Securities (Debt)	**1,317**	**-**	**-**	**1,317**
Loan Commitments and Financial Guarantees	**2,894**	**12,758**	**-**	**15,652**
Due from Banks, Central Banks and Other Financial Assets	**1,223**	**-**	**-**	**1,223**
	37,629	**58,070**	**229,737**	**325,436**
NET TRANSFER BETWEEN STAGES				
Loans and Advances to Customers	**(1,839)**	**(40,296)**	**42,135**	**-**
Investment Securities (Debt)	**-**	**-**	**-**	**-**
Loan Commitments and Financial Guarantees	**-**	**-**	**-**	**-**
Due from Banks, Central Banks and Other Financial Assets	**-**	**-**	**-**	**-**
	(1,839)	**(40,296)**	**42,135**	**-**
CHARGE FOR THE PERIOD (NET)				
Loans and Advances to Customers	**397**	**77,130**	**34,356**	**111,883**
Investment Securities (Debt)	**(491)**	**-**	**-**	**(491)**
Loan Commitments and Financial Guarantees	**(530)**	**(7,719)**	**-**	**(8,249)**
Due from Banks, Central Banks and Other Financial Assets	**(997)**	**-**	**-**	**(997)**
	(1,621)	**69,411**	**34,356**	**102,146**
WRITE OFF FOR THE PERIOD				
Loans and Advances to Customers	**-**	**-**	**(14,213)**	**(14,213)**
	-	**-**	**(14,213)**	**(14,213)**
CLOSING BALANCE - AS AT 31 DECEMBER 2020				
Loans and Advances to Customers	**30,752**	**82,146**	**292,016**	**404,914**
Investment Securities (Debt)	**826**	**-**	**-**	**826**
Loan Commitments and Financial Guarantees	**2,364**	**5,039**	**-**	**7,403**
Due from Banks, Central Banks and Other Financial Assets	**226**	**-**	**-**	**226**
	34,168	**87,185**	**292,016**	**413,369**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.3 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2019

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO' 000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Loans and Advances to Customers	2,287,047	489,190	143,609	2,919,846
Investment Securities (Debt)	293,056			293,056
Loan Commitments and Financial Guarantees	625,324	152,395		777,719
Due from Banks, Central Banks and Other Financial Assets	109,847			109,847
	3,315,274	641,585	143,609	4,100,468
OPENING BALANCE - AS AT 1 JANUARY 2019				
Loans and Advances to Customers	14,542	25,868	89,968	130,378
Investment Securities (Debt)	591	-	-	591
Loan Commitments and Financial Guarantees	1,432	7,791	-	9,223
Due from Banks, Central Banks and Other Financial Assets	379	-	-	379
	16,944	33,659	89,968	140,571
NET TRANSFER BETWEEN STAGES				
Loans and Advances to Customers	553	(3,689)	3,136	-
Investment Securities (Debt)	-	-	-	-
Loan Commitments and Financial Guarantees	1,510	(1,510)	-	-
Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	2,063	(5,199)	3,136	-
CHARGE FOR THE PERIOD (NET)				
Loans and Advances to Customers	(2,700)	(4,734)	29,877	22,443
Investment Securities (Debt)	(84)	-	-	(84)
Loan Commitments and Financial Guarantees	(1,828)	(1,369)	-	(3,197)
Due from Banks, Central Banks and Other Financial Assets	92	-	-	92
	(4,520)	(6,103)	29,877	19,254
WRITE OFF FOR THE PERIOD				
Loans and Advances to Customers	-	-	(34,532)	(34,532)
	-	-	(34,532)	(34,532)
CLOSING BALANCE - AS AT 31 DECEMBER 2019				
Loans and Advances to Customers	12,395	17,445	88,449	118,289
Investment Securities (Debt)	507	-	-	507
Loan Commitments and Financial Guarantees	1,114	4,912	-	6,026
Due from Banks, Central Banks and Other Financial Assets	471	-	-	471
	14,487	22,357	88,449	125,293

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.3 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2019

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	USD' 000	USD' 000	USD' 000	USD' 000
EXPOSURE SUBJECT TO ECL				
Loans and Advances to Customers	5,940,381	1,270,624	373,010	7,584,015
Investment Securities (Debt)	761,184	-	-	761,184
Loan Commitments and Financial Guarantees	1,624,219	395,831	-	2,020,050
Due from Banks, Central Banks and Other Financial Assets	285,317	-	-	285,317
	8,611,101	1,666,455	373,010	10,650,566
OPENING BALANCE - AS AT 1 JANUARY 2019				
Loans and Advances to Customers	37,771	67,190	233,683	338,644
Investment Securities (Debt)	1,535	-	-	1,535
Loan Commitments and Financial Guarantees	3,719	20,236	-	23,955
Due from Banks, Central Banks and Other Financial Assets	984	-	-	984
	44,009	87,426	233,683	365,118
NET TRANSFER BETWEEN STAGES				
Loans and Advances to Customers	1,436	(9,581)	8,145	-
Investment Securities (Debt)	-	-	-	-
Loan Commitments and Financial Guarantees	3,922	(3,922)	-	-
Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	5,358	(13,503)	8,145	-
CHARGE FOR THE PERIOD (NET)				
Loans and Advances to Customers	(7,013)	(12,296)	77,603	58,294
Investment Securities (Debt)	(218)	-	-	(218)
Loan Commitments and Financial Guarantees	(4,748)	(3,556)	-	(8,304)
Due from Banks, Central Banks and Other Financial Assets	239	-	-	239
	(11,740)	(15,852)	77,603	50,011
WRITE OFF FOR THE PERIOD				
Loans and Advances to Customers	-	-	(89,694)	(89,694)
	-	-	(89,694)	(89,694)
CLOSING BALANCE - AS AT 31 DECEMBER 2019				
Loans and Advances to Customers	32,195	45,312	229,737	307,244
Investment Securities (Debt)	1,318	-	-	1,318
Loan Commitments and Financial Guarantees	2,894	12,759	-	15,653
Due from Banks, Central Banks and Other Financial Assets	1,223	-	-	1,223
	37,630	58,071	229,737	325,438

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

26. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

26.4 MOVEMENT IN IMPAIRMENT CREDIT LOSSES FOR THE PERIOD ENDED 31 DECEMBER 2020

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
		(IMPAIRMENT)/REVERSAL OF ALLOWANCES FOR CREDIT LOSSES:		
(239)	**997**	Due from Banks	**384**	(92)
(46,972)	**(103,223)**	Loans and advances to customers	**(39,741)**	(18,083)
218	**491**	Investments	**189**	84
8,304	**8,249**	Financial guarantees	**3,176**	3,197
(38,689)	**(93,486)**	**TOTAL**	**(35,992)**	(14,894)
8,579	**6,265**	Recoveries and releases from provision for credit losses	**2,412**	3,303
9,987	**5,847**	Recoveries and releases from loans and advances written off	**2,251**	3,844
18,566	**12,112**	**TOTAL**	**4,663**	7,147
(20,123)	**(81,374)**	**NET IMPAIRMENT LOSSES**	**(31,329)**	(7,747)

27. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. Principal shareholders comprises of all shareholders with holding more than 10% of the paidup share capital and others include directors, senior management and associate companies of principal shareholders and directors.

The aggregate amounts of balances with such related parties are as follows:

	2020			2019		
	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	**-**	**121,307**	**121,307**	-	139,556	139,556
Customers' deposits	**25,117**	**55,375**	**80,492**	55,522	61,529	117,051
Due from Banks	**218**	**-**	**218**	258	9,625	9,883
Due to Banks	**201**	**-**	**201**	358	-	358
Letter of credit, guarantees and acceptance	**1,063**	**13,074**	**14,137**	854	37,113	37,967
Standby revolving credit facility	**154,000**	**-**	**154,000**	77,000	-	77,000
Investment	**2,272**	**-**	**2,272**	2,124	-	2,124

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS *(CONTINUED)*

The statement of profit or loss and other comprehensive income includes the following amounts in relation to transactions with related parties:

	2020			2019		
	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Interest income	**19**	**6,813**	**6,832**	45	7,051	7,096
Commission income	**5**	**141**	**146**	5	1,309	1,314
Interest expense	**3,548**	**1,549**	**5,097**	1,799	1,464	3,263
Other expenses	**-**	**527**	**527**	-	382	382

	2020			2019		
	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Loans and advances	**-**	**315,083**	**315,083**	-	362,483	362,483
Customers' deposits	**65,239**	**143,831**	**209,070**	144,213	159,816	304,029
Due from Banks	**566**	**-**	**566**	670	25,000	25,670
Due to Banks	**522**	**-**	**522**	930	-	930
Letter of credit, guarantees and acceptance	**2,761**	**33,958**	**36,719**	2,218	96,397	98,615
Standby revolving credit facility	**400,000**	**-**	**400,000**	200,000	-	200,000
Investment	**5,901**	**-**	**5,901**	5,517	-	5,517

The statement of profit or loss and other comprehensive income includes following amounts as relation to the transaction with related parties

	2020			2019		
	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL	PRINCIPAL SHAREHOLDERS	OTHERS	TOTAL
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	**49**	**17,696**	**17,745**	117	18,314	18,431
Commission income	**13**	**366**	**379**	13	3,400	3,413
Interest expense	**9,216**	**4,023**	**13,239**	4,673	3,803	8,476
Other expenses	**-**	**1,369**	**1,369**	-	992	992

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS *(CONTINUED)*

Details regarding senior management compensation are set out below:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
		Salaries and other benefits		
7,143	**7,395**	Fixed	**2,847**	2,750
4,080	**3,403**	Discretionary	**1,310**	1,571
11,223	**10,798**		**4,157**	4,321

28. BASIC AND DILUTED EARNINGS PER SHARE

	2020	2019
	RO '000	RO '000
Net Profit after tax (RO'000s)	**18,148**	51,431
Less: Interest on tier 1 perpetual bond	**(9,096)**	(9,096)
Add: Reversal of wht provision on tier 1 perpetual bond	**-**	2,021
Profit attributable to shareholders	**9,052**	44,356
Weighted average number of shares outstanding during the year (in '000s)	**1,625,946**	1,625,946
Earnings per share (RO)	**0.006**	0.027
	USD'000	USD'000
Net Profit after tax (USD'000s)	**47,139**	133,586
Less: Interest on tier 1 perpetual bond	**(23,626)**	(23,626)
Add: Reversal of wht provision on tier 1 perpetual bond	**-**	5,249
Profit attributable to shareholders	**23,513**	115,209
Weighted average number of shares outstanding during the year (in '000s)	**1,625,946**	1,625,946
Earnings per share (USD)	**0.01**	0.07

No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

29. CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

29. CAPITAL ADEQUACY *(CONTINUED)*

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
		CAPITAL BASE		
1,037,236	**1,046,278**	Common equity Tier 1 - shareholders' funds	**402,817**	399,336
300,000	**300,000**	Additional Tier 1 - capital	**115,500**	115,500
75,512	**88,153**	Tier 2 - subordinated debt and collective impairment provisions	**33,939**	29,072
1,412,748	**1,434,431**	Total capital base	**552,256**	543,908
		RISK WEIGHTED ASSETS		
7,762,169	**7,980,478**	Credit risk	**3,072,484**	2,988,435
632,288	**607,670**	Operational risk	**233,953**	243,431
123,891	**135,509**	Market risk	**52,171**	47,698
8,518,348	**8,723,657**	Total risk weighted assets	**3,358,608**	3,279,564
12.2%	**12.0%**	Common Equity Tier 1 Ratio	**12.0%**	12.2%
15.7%	**15.4%**	Tier 1 Ratio	**15.4%**	15.7%
16.6%	**16.4%**	Risk asset ratio (Basel II norms)	**16.4%**	16.6%

30. RISK MANAGEMENT

Effective risk management is of primary importance for the Bank. The Bank's risk management process evaluates, monitors and manages the risks associated with the businesses the Bank conducts in line with the defined risk appetite. The Bank's key risks are credit risk, market risk, operational risk and strategic risk. The Bank operates on the guiding principles of three lines of defense i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the Bank. 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 management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The Bank is contemplating an early warning trigger system based on predefined credit parameters and account behaviour. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's Risk Analyst model for risk rating corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers. The Bank has introduced facility risk rating apart from customer credit rating so as to measure the appropriate loss given default associated with each credit.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the Bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. The Bank also undertook a weekly review across all its business segments of early warning accounts, which showed signs of stress, and remedial action prescribed as necessary. The Bank undertook sector review of its exposure to Real estate, Construction, Steel, Healthcare and lending against shares.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

The Bank introduced prudent control measures for its UAE operations in line with the changing operating environment detailed below

- Revised business focus on Oman-UAE business corridor with emphasis on businesses sponsored by Omani or reputed UAE nationals.
- Enhanced Due diligence and strengthened KYC processes
- Revised Standard Operating Procedures in line with changing business needs.

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio quality
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the quarter.

System enhancements and continuous improvements have been made on all processes that are critical to improve quality of overall retail portfolio. The Bank has a lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit application Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The Bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups,

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

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

Maximum exposure to credit risk

GROSS MAXIMUM EXPOSURE 2019 USD'000	GROSS MAXIMUM EXPOSURE 2020 USD'000		GROSS MAXIMUM EXPOSURE 2020 RO'000	GROSS MAXIMUM EXPOSURE 2019 RO'000
753,010	**460,272**	Balances with Central Banks	**177,205**	289,909
285,317	**246,242**	Due from Banks and other money market placements	**94,803**	109,847
7,584,015	**7,905,854**	Loans, advances and financing activities for customers	**3,043,754**	2,919,846
759,868	**732,122**	Financial investments	**281,867**	255,267
98,966	**125,507**	Other assets	**48,320**	38,102
6,868	**11,753**	Derivatives	**4,525**	2,644
9,488,044	**9,481,750**	**TOTAL ON BALANCE SHEET EXPOSURE**	**3,650,474**	3,615,615
902,855	**732,382**	Guarantees	**281,967**	347,599
332,904	**101,143**	Documentary letters of credit	**38,940**	128,168
784,291	**458,758**	Undrawn commitment	**176,622**	301,952
2,020,050	**1,292,283**	**TOTAL OFF-BALANCE SHEET EXPOSURE**	**497,529**	777,719

The above table represents the maximum credit risk exposure to the Bank at 31 December 2020 and 2019 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

An ageing analysis of the Bank's loans which are past due but not impaired is set out below:

	LOANS IN ARREARS 1-30 DAYS RO'000	LOANS IN ARREARS 31-60 DAYS RO'000	LOANS IN ARREARS 61-89 DAYS RO'000	TOTAL RO'000
Loans and advances to customers at				
31 December 2020	**57,435**	**6,914**	**4,943**	**69,292**
31 December 2020 – USD'000s	**149,182**	**17,958**	**12,839**	**179,979**
31 December 2019	34,396	19,498	22,429	76,323
31 December 2019 – USD'000s	89,340	50,644	58,258	198,242

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

Collateral and other credit enhancements

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 the 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 property, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The housing loans are secured by mortgage over the residential property.

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO'000	RO'000	RO'000	RO'000
Collateral available	**1,865,120**	**63,469**	**55,053**	**1,983,642**
Government guarantee loans	**38,500**		**2,038**	**40,538**
Balance As at 31 December 2020	**1,903,620**	**63,469**	**57,091**	**2,024,180**
Balance As at 31 December 2020 – USD'000s	**4,944,467**	**164,855**	**148,288**	**5,257,610**
Balance as at 31 December 2019	1,594,383	45,027	46,194	1,685,604
Balance as at 31 December 2019 – USD'000s	4,141,255	116,953	119,984	4,378,192

The amount of total secured loans and advances is less than the total value of collateral as stated above.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2020:

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO'000	RO'000	RO'000	RO'000
GROSS LOANS AND ADVANCES TO CUSTOMERS - CORPORATE BANKING				
Performing loans (Grades 1-5)	**744,273**	**403,430**	**-**	**1,147,703**
Performing loans (Grades 6)	**187,491**	**70,058**	**-**	**257,549**
Performing loans (Grades 7)	**-**	**110,668**	**-**	**110,668**
Non-performing loans (Grades 8-10)	**-**	**-**	**130,954**	**130,954**
Gross loans and advances to customers - corporate Banking	**931,764**	**584,156**	**130,954**	**1,646,874**
GROSS LOANS AND ADVANCES TO CUSTOMERS - RETAIL BANKING				
Performing loans (Grades 1-7)	**1,319,287**	**39,571**	**-**	**1,358,858**
Non-performing loans (Grades 8-10)	**-**	**-**	**38,022**	**38,022**
Gross loans and advances to customers - retail Banking	**1,319,287**	**39,571**	**38,022**	**1,396,880**
Total gross loans and advances to customers	**2,251,051**	**623,727**	**168,976**	**3,043,754**
Loss allowance-carrying amount	**11,840**	**31,625**	**112,427**	**155,892**
CREDIT RELATED CONTINGENT ITEMS				
Performing loans (Grades 1-5)	**114,084**	**58,636**	**-**	**172,720**
Performing loans (Grades 6)	**32,432**	**33,192**	**-**	**65,624**
Performing loans (Grades 7)	**-**	**27,258**	**-**	**27,258**
TOTAL GROSS CREDIT RELATED CONTINGENT ITEMS	**146,516**	**119,086**	**-**	**265,602**
Loss allowance-carrying amount	**910**	**1,940**	**-**	**2,850**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO'000	RO'000	RO'000	RO'000
DUE FROM BANKS AND MONEY MARKET PLACEMENTS				
Performing Banks (Aa1 to Baa3)	**65,732**	-	-	**65,732**
Performing Banks (B1 to Ba2)	**17,083**	-	-	**17,083**
Performing Banks (Unrated)	**11,988**	-	-	**11,988**
Due from Banks and money market placements	**94,803**	-	-	**94,803**
Loss allowance-carrying amount	**87**	-	-	**87**
Investment securities	**318,852**	-	-	**318,852**
Loss allowance-carrying amount	**318**	-	-	**318**
	USD'000	**USD'000**	**USD'000**	**USD'000**
GROSS LOANS AND ADVANCES TO CUSTOMERS - CORPORATE BANKING				
Performing loans (Grades 1-5)	**1,933,177**	**1,047,870**	-	**2,981,047**
Performing loans (Grades 6)	**486,990**	**181,969**	-	**668,959**
Performing loans (Grades 7)	-	**287,449**	-	**287,449**
Non-performing loans (Grades 8-10)	-	-	**340,140**	**340,140**
Gross loans and advances to customers - corporate Banking	**2,420,167**	**1,517,288**	**340,140**	**4,277,595**
GROSS LOANS AND ADVANCES TO CUSTOMERS - RETAIL BANKING				
Performing loans (Grades 1-7)	**3,426,719**	**102,782**	-	**3,529,501**
Non-performing loans (Grades 8-10)	-	-	**98,758**	**98,758**
Gross loans and advances to customers - retail Banking	**3,426,719**	**102,782**	**98,758**	**3,628,259**
TOTAL GROSS LOANS AND ADVANCES TO CUSTOMERS	**5,846,886**	**1,620,070**	**438,898**	**7,905,854**
Loss allowance-carrying amount	**30,753**	**82,143**	**292,018**	**404,914**
CREDIT RELATED CONTINGENT ITEMS				
Performing loans (Grades 1-5)	**296,322**	**152,301**	-	**448,623**
Performing loans (Grades 6)	**84,239**	**86,213**	-	**170,452**
Performing loans (Grades 7)	-	**70,800**	-	**70,800**
TOTAL GROSS CREDIT RELATED CONTINGENT ITEMS	**380,561**	**309,314**	-	**689,875**
Loss allowance-carrying amount	**2,364**	**5,039**	-	**7,403**
DUE FROM BANKS AND MONEY MARKET PLACEMENTS				
Performing Banks (Aa1 to Baa3)	**170,737**	-	-	**170,737**
Performing Banks (B1 to Ba2)	**44,370**	-	-	**44,370**
Performing Banks (Unrated)	**31,136**	-	-	**31,136**
Due from Banks and money market placements	**246,243**	-	-	**246,243**
Loss allowance-carrying amount	**226**	-	-	**226**
Investment securities	**828,187**	-	-	**828,187**
Loss allowance-carrying amount	**826**	-	-	**826**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2019:

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO'000	RO'000	RO'000	RO'000
GROSS LOANS AND ADVANCES TO CUSTOMERS - CORPORATE BANKING				
Performing loans (Grades 1-5)	930,881	289,819	-	1,220,700
Performing loans (Grades 6)	80,524	78,667	-	159,191
Performing loans (Grades 7)	-	71,035	-	71,035
Non-performing loans (Grades 8-10)	-	-	106,088	106,088
Gross loans and advances to customers - corporate Banking	**1,011,405**	**439,521**	**106,088**	**1,557,014**
GROSS LOANS AND ADVANCES TO CUSTOMERS – RETAIL BANKING				
Performing loans (Grades 1-7)	1,276,077	49,234	-	1,325,311
Non-performing loans (Grades 8-10)	-	-	37,521	37,521
Gross loans and advances to customers - retail Banking	1,276,077	49,234	37,521	1,362,832
TOTAL GROSS LOANS AND ADVANCES TO CUSTOMERS	**2,287,482**	**488,755**	**143,609**	**2,919,846**
Loss allowance-carrying amount	12,395	17,445	88,449	118,289
Credit related contingent items				
Performing loans (Grades 1-5)	162,395	100,378	-	262,773
Performing loans (Grades 6)	26,869	52,994	-	79,863
Performing loans (Grades 7)	-	5,032	-	5,032
Total gross credit related contingent items	189,264	158,404	-	347,668
Loss allowance-carrying amount	1,114	4,913	-	6,027
DUE FROM BANKS AND MONEY MARKET PLACEMENTS				
Performing Banks (Aa1 to Baa3)	51,901	-	-	51,901
Performing Banks (B1 to Ba2)	31,996	-	-	31,996
Performing Banks (Unrated)	25,950	-	-	25,950
Due from Banks and money market placements	**109,847**	**-**	**-**	**109,847**
Loss allowance-carrying amount	471	-	-	471
Investment securities	293,056	-	-	293,056
Loss allowance-carrying amount	507	-	-	507

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2019:

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	USD'000	USD'000	USD'000	USD'000
GROSS LOANS AND ADVANCES TO CUSTOMERS - CORPORATE BANKING				
Performing loans (Grades 1-5)	2,417,869	752,777	-	3,170,646
Performing loans (Grades 6)	209,153	204,330	-	413,483
Performing loans (Grades 7)	-	184,508	-	184,508
Non-performing loans (Grades 8-10)	-	-	275,553	275,553
Gross loans and advances to customers - corporate Banking	**2,627,022**	**1,141,615**	**275,553**	**4,044,190**
GROSS LOANS AND ADVANCES TO CUSTOMERS - RETAIL BANKING				
Performing loans (Grades 1-7)	3,314,487	127,880	-	3,442,367
Non-performing loans (Grades 8-10)	-	-	97,458	97,458
Gross loans and advances to customers - retail Banking	3,314,487	127,880	97,458	3,539,825
TOTAL GROSS LOANS AND ADVANCES TO CUSTOMERS	**5,941,509**	**1,269,495**	**373,011**	**7,584,015**
Loss allowance-carrying amount	32,193	45,313	229,738	307,244
CREDIT RELATED CONTINGENT ITEMS				
Performing loans (Grades 1-5)	421,805	260,723	-	682,528
Performing loans (Grades 6)	69,789	137,646	-	207,435
Performing loans (Grades 7)	-	13,070	-	13,070
TOTAL GROSS CREDIT RELATED CONTINGENT ITEMS	**491,594**	**411,439**	**-**	**903,033**
Loss allowance-carrying amount	2,892	12,761	-	15,653
DUE FROM BANKS AND MONEY MARKET PLACEMENTS				
Performing Banks (Aa1 to Baa3)	134,809	-	-	134,809
Performing Banks (B1 to Ba2)	83,106	-	-	83,106
Performing Banks (Unrated)	67,402	-	-	67,402
Due from Banks and money market placements	**285,317**	**-**	**-**	**285,317**
Loss allowance-carrying amount	1,223	-	-	1,223
Investment securities	761,184	-	-	761,184
Loss allowance-carrying amount	1,317	-	-	1,317

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

Impairment assessment

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interBank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for Bankruptcy application/protection Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

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

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman)
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

KEY DRIVERS	ECL SCENARIO AND ASSIGNED WEIGHTAGE	2021	2022	2023
Real Interest Rate	**Base scenario**	**7.6%**	**7.6%**	**7.6%**
	Upside scenario	**5.8%**	**6.4%**	**6.9%**
	Downside scenario	**8.9%**	**8.1%**	**7.4%**
GDP	**Base scenario**	**4.3%**	**4.3%**	**4.3%**
	Upside scenario	**5.1%**	**4.3%**	**4.2%**
	Downside scenario	**2.9%**	**3.6%**	**3.7%**
GDP per capita	**Base scenario**	**0.2%**	**0.7%**	**0.1%**
	Upside scenario	**1.1%**	**0.4%**	**0.2%**
	Downside scenario	**-1.0%**	**-0.4%**	**-0.2%**

Treasury, trading and interBank relationships

The Bank's treasury, trading and interBank relationships and counterparties comprise financial services institutions, Banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and small business lending

For corporate and investment Banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

- Interest rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations;
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

For corporate and investment Banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.

b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.

c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.

d. Frequent changes in key senior management personnel without acceptable successors or professional management.

e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.

f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.

g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.

h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.

i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.

j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.

k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Model risk management:

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Bank has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a Bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

30. RISK MANAGEMENT *(CONTINUED)*

30.1 CREDIT RISK *(CONTINUED)*

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRCC.

The Bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Bank in terms of usage of models.

30.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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 the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective January 2020, with a minimum ratio of 100% as per the regulatory guidance.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.2 LIQUIDITY RISK *(CONTINUED)*

The residual maturity behavioral of the assets, liabilities and equity at 31 December 2020 is as follows:

	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	SUBTOTAL LESS THAN 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	SUBTOTAL OVER 12 MONTHS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	148,353	30,207	178,560	21,409	16,157	37,566	216,126
Due from Banks and other money market placements (net)	76,621	14,245	90,866	3,850	-	3,850	94,716
Loans, advances and financing activities for customers (net)	439,119	237,931	677,050	767,790	1,443,022	2,210,812	2,887,862
Financial investments	62,905	2,998	65,903	94,547	158,084	252,631	318,534
Property and equipment	-	-	-	-	62,568	62,568	62,568
Other assets	41,738	10,659	52,397	448	-	448	52,845
TOTAL ASSETS	**768,736**	**296,040**	**1,064,776**	**888,044**	**1,679,831**	**2,567,875**	**3,632,651**
Due to Banks and other money market deposits	118,638	16,085	134,723	154,000	-	154,000	288,723
Customers' deposits and unrestricted investment accounts	588,819	861,846	1,450,665	624,505	452,009	1,076,514	2,527,179
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	81,970	981	82,951	1,327	170	1,497	84,448
Taxation	9,568	-	9,568	-	-	-	9,568
Shareholders' equity	-	-	-	-	414,733	414,733	414,733
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**798,995**	**878,912**	**1,677,907**	**972,332**	**982,412**	**1,954,744**	**3,632,651**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.2 LIQUIDITY RISK *(CONTINUED)*

	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	SUBTOTAL LESS THAN 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	SUBTOTAL OVER 12 MONTHS	TOTAL
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	385,332	78,460	463,792	55,608	41,966	97,574	561,366
Due from Banks and other money market placements (net)	199,016	37,000	236,016	10,000	-	10,000	246,016
Loans, advances and financing activities for customers (net)	1,140,569	618,003	1,758,572	1,994,260	3,748,108	5,742,368	7,500,940
Financial investments	163,389	7,787	171,176	245,577	410,608	656,185	827,361
Property and equipment	-	-	-	-	162,514	162,514	162,514
Other assets	108,410	27,686	136,096	1,164	-	1,164	137,260
TOTAL ASSETS	**1,996,716**	**768,936**	**2,765,652**	**2,306,609**	**4,363,196**	**6,669,805**	**9,435,457**
Due to Banks and other money market deposits	308,151	41,779	349,930	400,000	-	400,000	749,930
Customers' deposits and unrestricted investment accounts	1,529,400	2,238,561	3,767,961	1,622,091	1,174,049	2,796,140	6,564,101
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	212,908	2,548	215,456	3,447	442	3,889	219,345
Taxation	24,852	-	24,852	-	-	-	24,852
Shareholders' equity	-	-	-	-	1,077,229	1,077,229	1,077,229
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,075,311**	**2,282,888**	**4,358,199**	**2,525,538**	**2,551,720**	**5,077,258**	**9,435,457**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.2 LIQUIDITY RISK *(CONTINUED)*

The maturity profile of the assets, liabilities and equity at 31 December 2019 is as follows:

	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	SUBTOTAL LESS THAN 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	SUBTOTAL OVER 12 MONTHS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	265,478	28,361	293,839	22,556	17,377	39,933	333,772
Due from Banks and other money market placements (net)	75,149	13,437	88,586	11,165	9,625	20,790	109,376
Loans, advances and financing activities for customers (net)	357,890	249,638	607,528	706,750	1,487,279	2,194,029	2,801,557
Financial investments	64,382	22,068	86,450	62,134	143,965	206,099	292,549
Property and equipment	-	-	-	-	65,047	65,047	65,047
Other assets	32,597	8,149	40,746	-	-	-	40,746
TOTAL ASSETS	795,496	321,653	1,117,149	802,605	1,723,293	2,525,898	3,643,047
Due to Banks and other money market deposits	150,961	17,325	168,286	115,500	-	115,500	283,786
Customers' deposits and unrestricted investment accounts	547,429	819,736	1,367,165	668,344	496,009	1,164,353	2,531,518
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	66,082	1,033	67,115	2,704	-	2,704	69,819
Taxation	13,221	-	13,221	-	-	-	13,221
Shareholders' equity	-	-	-	-	436,703	436,703	436,703
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	777,693	838,094	1,615,787	979,048	1,048,212	2,027,260	3,643,047

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AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.2 LIQUIDITY RISK *(CONTINUED)*

	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	SUBTOTAL LESS THAN 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	SUBTOTAL OVER 12 MONTHS	TOTAL
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	689,553	73,665	763,218	58,587	45,135	103,722	866,940
Due from Banks and other money market placements (net)	195,193	34,901	230,094	29,000	25,000	54,000	284,094
Loans, advances and financing activities for customers (net)	929,584	648,410	1,577,994	1,835,714	3,863,063	5,698,777	7,276,771
Financial investments	167,227	57,319	224,546	161,387	373,935	535,322	759,868
Property and equipment	-	-	-	-	168,953	168,953	168,953
Other assets	84,668	21,166	105,834	-	-	-	105,834
TOTAL ASSETS	2,066,225	835,461	2,901,686	2,084,688	4,476,086	6,560,774	9,462,460
Due to Banks and other money market deposits	392,106	45,000	437,106	300,000	-	300,000	737,106
Customers' deposits and unrestricted investment accounts	1,421,894	2,129,184	3,551,078	1,735,958	1,288,335	3,024,293	6,575,371
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	171,643	2,683	174,326	7,023	-	7,023	181,349
Taxation	34,340	-	34,340	-	-	-	34,340
Shareholders' equity	-	-	-	-	1,134,294	1,134,294	1,134,294
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,019,983	2,176,867	4,196,850	2,542,981	2,722,629	5,265,610	9,462,460

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.2 LIQUIDITY RISK *(CONTINUED)*

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2020.

TOTAL UNWEIGHTED VALUE (AVERAGE) 2020	TOTAL WEIGHTED VALUE (AVERAGE) 2020		TOTAL UNWEIGHTED VALUE (AVERAGE) 2020	TOTAL WEIGHTED VALUE (AVERAGE) 2020
USD'000	USD'000		RO'000	RO'000
		HIGH QUALITY LIQUID ASSETS		
-	1,159,151	Total High Quality Liquid Assets (HQLA)		446,273
		CASH OUTFLOWS		
2,001,951	116,899	**RETAIL DEPOSITS AND DEPOSITS FROM SMALL BUSINESS CUSTOMERS OF WHICH:**	770,751	45,006
1,665,935	83,296	Stable deposits	641,385	32,069
336,016	33,603	Less stable deposits	129,366	12,937
2,525,577	1,059,868	Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative Banks	972,347	408,049
192,753	19,275	Additional requirements, of which Credit and liquidity facilities	74,210	7,421
1,114,917	252,517	Other contingent funding obligations	429,243	97,219
5,835,198	1,448,559	**TOTAL CASH OUTFLOWS**	2,246,551	557,695
		CASH INFLOWS		
773,382	494,029	Inflows from fully performing exposures	297,752	190,201
54,262	250,371	Other cash inflows	20,891	96,393
827,644	744,400	**TOTAL CASH INFLOWS**	318,643	286,594
-	1,159,151	**TOTAL HIGH QUALITY LIQUID ASSETS**	-	446,273
-	704,159	**TOTAL NET CASH OUTFLOWS**	-	271,101
-	164.01	**LIQUIDITY COVERAGE RATIO (%)**	-	164.01

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

- **Equity risk**

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

- **Interest rate risk**

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

AS AT DECEMBER 2020	200 BPS INCREASE	200 BPS DECREASE
Earnings impact - RO'000s	8,785	(8,785)
Earnings impact - USD'000s	22,818	(22,818)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK *(CONTINUED)*

- **IBOR Reform**

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The project is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations, Risk Management and Technology.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK *(CONTINUED)*

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2020 is as follows:

	AVERAGE EFFECTIVE INTEREST RATE	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.88%	23,668	-	-	-	192,458	216,126
Due from Banks and other money market placements (net)	1.32%	57,867	12,705	3,850	-	20,294	94,716
Loans, advances and islamic financing assets (net)	5.42%	1,039,284	642,749	623,468	582,361	-	2,887,862
Financial investments	5.73%	22,849	8,975	92,143	151,746	42,821	318,534
Property and equipment	N/A	-	-	-	-	62,568	62,568
Other assets	N/A	-	-	-	-	52,845	52,845
TOTAL ASSETS		**1,143,668**	**664,429**	**719,461**	**734,107**	**370,986**	**3,632,651**
Due to Banks and other money market deposits	2.33%	157,138	16,085	11,550	-	103,950	288,723
Customers' deposits and unrestricted investment accounts	2.26%	192,684	1,580,316	303,225	66	450,888	2,527,179
Euro medium term notes	5.85%	-	-	192,500	-	-	192,500
Other liabilities	N/A	-	-	-	-	84,448	84,448
Taxation	N/A	-	-	-	-	9,568	9,568
Tier 1 Perpetual Bond	7.88%	-	115,500	-	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	414,733	414,733
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**349,822**	**1,711,901**	**507,275**	**66**	**1,063,587**	**3,632,651**
TOTAL INTEREST RATE SENSITIVITY GAP		**793,846**	**(1,047,472)**	**212,186**	**734,041**	**(692,601)**	**-**
CUMULATIVE INTEREST RATE SENSITIVITY GAP		**793,846**	**(253,626)**	**(41,440)**	**692,601**	**-**	

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK *(CONTINUED)*

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2020 is as follows:

	AVERAGE EFFECTIVE INTEREST RATE	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	**0.88%**	**61,475**	**-**	**-**	**-**	**499,891**	**561,366**
Due from Banks and other money market placements (net)	**1.32%**	**150,304**	**33,000**	**10,000**	**-**	**52,712**	**246,016**
Loans, advances and islamic financing assets (net)	**5.42%**	**2,699,439**	**1,669,478**	**1,619,397**	**1,512,626**	**-**	**7,500,940**
Financial investments	**5.73%**	**59,348**	**23,312**	**239,332**	**394,145**	**111,224**	**827,361**
Property and equipment	**N/A**	**-**	**-**	**-**	**-**	**162,514**	**162,514**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**137,260**	**137,260**
TOTAL ASSETS		**2,970,566**	**1,725,790**	**1,868,729**	**1,906,771**	**963,601**	**9,435,457**
Due to Banks and other money market deposits		**408,151**	**41,779**	**30,000**	**-**	**270,000**	**749,930**
Customers' deposits and unrestricted investment accounts	**2.33%**	**500,478**	**4,104,717**	**787,597**	**171**	**1,171,138**	**6,564,101**
Euro medium term notes	**2.26%**	**-**	**-**	**500,000**	**-**	**-**	**500,000**
Other liabilities	**5.85%**	**-**	**-**	**-**	**-**	**219,345**	**219,345**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**24,852**	**24,852**
Tier 1 Perpetual Bond	**7.88%**	**-**	**300,000**	**-**	**-**	**-**	**300,000**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**1,077,229**	**1,077,229**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**N/A**	**908,629**	**4,446,496**	**1,317,597**	**171**	**2,762,564**	**9,435,457**
TOTAL INTEREST RATE SENSITIVITY GAP		**2,061,937**	**(2,720,706)**	**551,132**	**1,906,600**	**(1,798,963)**	**-**
CUMULATIVE INTEREST RATE SENSITIVITY GAP		**2,061,937**	**(658,769)**	**(107,637)**	**1,798,963**	**-**	

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK *(CONTINUED)*

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2019 is as follows:

	AVERAGE EFFECTIVE INTEREST RATE	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	2.27%	7,240	-	-	-	326,532	333,772
Due from Banks and other money market placements (net)	3.06%	88,919	20,405	-	-	52	109,376
Loans, advances and islamic financing assets (net)	5.59%	933,730	633,030	669,011	565,786	-	2,801,557
Financial investments	5.13%	28,186	3,813	84,553	121,740	54,257	292,549
Property and equipment	N/A	-	-	-	-	65,047	65,047
Other assets	N/A	-	-	-	-	40,746	40,746
TOTAL ASSETS		1,058,075	657,248	753,564	687,526	486,634	3,643,047
Due to Banks and other money market deposits	2.95%	274,161	9,625	-	-	-	283,786
Customers' deposits and unrestricted investment accounts	2.09%	153,812	1,539,882	394,370	-	443,454	2,531,518
Euro medium term notes	5.09%	-	-	192,500	-	-	192,500
Other liabilities	N/A	341	-	-	-	69,478	69,819
Taxation	N/A	-	-	-	-	13,221	13,221
Tier 1 Perpetual Bond	7.88%	-	-	115,500	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	436,703	436,703
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		428,314	1,549,507	702,370	-	962,856	3,643,047
TOTAL INTEREST RATE SENSITIVITY GAP		629,761	(892,259)	51,194	687,526	(476,222)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		629,761	(262,498)	(211,304)	476,222	-	

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK *(CONTINUED)*

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2019 is as follows:

	AVERAGE EFFECTIVE INTEREST RATE	ON DEMAND WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	2.27%	18,805	-	-	-	848,135	866,940
Due from Banks and other money market placements (net)	3.06%	230,959	53,000	-	-	135	284,094
Loans, advances and islamic financing assets (net)	5.59%	2,425,272	1,644,234	1,737,691	1,469,574	-	7,276,771
Financial investments	5.13%	73,210	9,904	219,618	316,208	140,928	759,868
Property and equipment	N/A	-	-	-	-	168,953	168,953
Other assets	N/A	-	-	-	-	105,834	105,834
TOTAL ASSETS		2,748,246	1,707,138	1,957,309	1,785,782	1,263,985	9,462,460
Due to Banks and other money market deposits		712,106	25,000	-	-	-	737,106
Customers' deposits and unrestricted investment accounts	2.95%	399,512	3,999,694	1,024,338	-	1,151,827	6,575,371
Euro medium term notes	2.09%	-	-	500,000	-	-	500,000
Other liabilities	5.09%	886	-	-	-	180,463	181,349
Taxation	N/A	-	-	-	-	34,340	34,340
Tier 1 Perpetual Bond	7.88%	-	-	300,000	-	-	300,000
Shareholders' equity	N/A	-	-	-	-	1,134,294	1,134,294
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	N/A	1,112,504	4,024,694	1,824,338	-	2,500,924	9,462,460
TOTAL INTEREST RATE SENSITIVITY GAP		1,635,742	(2,317,556)	132,971	1,785,782	(1,236,939)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		1,635,742	(681,814)	(548,843)	1,236,939	-	

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

30. RISK MANAGEMENT *(CONTINUED)*

30.3 MARKET RISK *(CONTINUED)*

- **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the Bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

The Bank had the following significant net exposures denominated in foreign currencies:

2019	2020		2020	2019
USD'000	USD'000		RO'000	RO'000
50,203	**154,974**	US Dollar	**59,665**	19,328
97,418	**106,200**	UAE Dirham	**40,887**	37,506
4,904	**3,852**	Others	**1,483**	1,888

30.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

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.

30.4.1 Fraud Risk

The Bank has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the Bank and maintenance of Operational Loss Database.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

30. RISK MANAGEMENT *(CONTINUED)*

30.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the Bank. Furthermore, the Bank is currently augmenting its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes.

In the course of 2017 the Bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and it will be rolled out in 2020 and progressively completed in the next 2-3 years.

30.6 COVID-19

Outbreak of Coronavirus (COVID-19)

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

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. Many GCC economies have already commenced the vaccination drive. The Central Banks in Oman and in the UAE had instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan installments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of certain fees, providing capital relief and increasing the lending ratio etc. Some of these measures have been extended until 31 March 2021.

Impact of COVID-19 on the Bank

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

The central Bank of Oman has issued further IFRS 9 related guidances. These are summarized below:

- Measures related to deferment of loan repayment by a borrower may not on its own, trigger the counting of 30 "days past due" (DPD) or more backstop used to determine significant increase in credit risk (SICR) or the 90 days past due backstop used to determine default. However, Banks should continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, the risks should be recognized.
- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless Banks have sighted other supportable evidences of credit quality deterioration.
- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

30. RISK MANAGEMENT *(CONTINUED)*

30.6 COVID-19 *(CONTINUED)*

- Banks must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices and policy measures taken to stabilize the economy.
- Nevertheless, any changes made to ECL estimates will be subject to very high levels of uncertainty, as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied in the ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and support measures. Besides the individual and collective LGD's may also get impacted due to Covid-19 effect on market prices of collateral and guarantees. For this reason, Banks are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

The IFRS 9 Steering Committee of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors.

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

Impact on SICR:

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

Impact on ECL:

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across Oman and UAE where the Bank operates, could not be reliably modelled, at present. As a consequence, the existing models generated results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments have been made. The Bank expects that post-model adjustments will be applied for the foreseeable future.

Management overlays made in estimating the reported ECL as at 31 December 2020 are set out as follows:

As on the reporting date the collective provision held by the Bank through management overlays amounts to 11.3% of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such management overlays on a regular basis throughout the affected period.

Management overlays:

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

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

30. RISK MANAGEMENT *(CONTINUED)*

30.6 COVID-19 *(CONTINUED)*

Hence, based on regulatory and IASB's guidance, as a measure of prudence, wherever necessary, the Bank has applied management judgment overlays, while computing its ECL with an intention to collectively cover the,

- Customer, industry, sector specific evolving credit risk and appetite,
- Impact of recent external ratings and resultant change in the PD term structures,
- Impact of Covid-19 & depressed oil prices available in latest forward looking information and
- Mitigating impacts of government support measures to the extent possible

In determining above, the management has considered following assumptions:

- Oil price used by the Bank around $52/bbl (31 December 2019: $65.7/bbl)

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

	AT 31 DECEMBER 2020		AT 31 DECEMBER 2019	
SENSITIVITY OF IMPAIRMENT ESTIMATES	ECL	IMPACT ON ECL	ECL	IMPACT ON ECL
	RO'000	RO'000	RO'000	RO'000
ECL on non-impaired loans under IFRS9	**46,722**		36,844	
SIMULATIONS				
Upside case - 100% weighted	**40,947**	**5,776**	32,090	4,755
Base case - 100% weighted	**46,355**	**368**	37,155	(311)
Downside scenario - 100% weighted	**52,865**	**(6,143)**	41,288	(4,444)

Accounting for modification loss:

In case of retail customers, the Bank plans to add the simple interest accrued during the deferral period to the total outstanding and has either extend the original maturity period of the loan or increase the installments. As retail loans have shorter tenor behaviourally, modification loss does not have material impact on the carrying value.

With regard to corporate loans the Bank had extended deferrals only for the principal repayments. A vast majority of customers were servicing the interest accruing on the loans. In rare circumtances, where the deferrals were for the entire installments the corresponding modification loss has not resulted in any significant impact to the carrying value.

NOTES TO THE FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2020**

30. RISK MANAGEMENT *(CONTINUED)*

30.6 COVID-19 *(CONTINUED)*

Stage-wise analysis of customers benefiting from payment deferrals

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans and advances and Islamic financing receivables of the customers, who have been provided with such benefits, and the related ECL:

RO'000	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loans and advances and Islamic financing receivables and acceptances	1,066,038	363,660	2,301	1,432,000
Off-balance sheet exposures	26,923	9,794	-	36,717
Total exposure to customers benefiting from payment deferrals	1,092,962	373,454	2,301	1,468,717
Total ECL on exposure to customers benefiting from payment deferrals	7,068	10,751	1,071	18,836
Of Which:				
Deferred amount	144,449	71,167	67	215,684
Allowances for impairment (ECL)	7,068	10,751	1,071	18,836
Carrying amount	151,517	81,918	1,138	234,520

Impact on the Capital Adequacy:

Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the Bank's regulatory capital is 53 bps.

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

31. CONCENTRATIONS

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

31. CONCENTRATIONS *(CONTINUED)*

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2020 is as follows:

	SULTANATE OF OMAN	UAE	EGYPT	OTHERS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	205,416	10,257	453	-	216,126
Due from Banks and other money market placements (net)	19,475	8,827	743	65,671	94,716
Loans, advances and islamic financing assets (net)	2,839,221	45,664	-	2,977	2,887,862
Financial investments	295,177	12,866	-	10,491	318,534
Property and equipment	61,160	1,286	122	-	62,568
Other assets	50,158	2,491	196	-	52,845
TOTAL ASSETS	**3,470,607**	**81,391**	**1,514**	**79,139**	**3,632,651**
Due to Banks and other money market deposits	5,750	101,907	12,320	168,746	288,723
Customers' deposits and unrestricted investment accounts	2,471,403	55,246	530	-	2,527,179
Euro medium term notes	192,500	-	-	-	192,500
Other liabilities	88,896	(4,638)	190	-	84,448
Taxation	9,382	19	167	-	9,568
Shareholders' equity	429,332	(16,306)	1,707	-	414,733
Tier 1 perpetual bond	115,500	-	-	-	115,500
LIABILITIES AND SHAREHOLDERS' EQUITY	**3,311,955**	**137,036**	**14,914**	**168,746**	**3,632,651**
CONTINGENT LIABILITIES	**266,076**	**18,375**	**-**	**36,456**	**320,907**
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	533,547	26,642	1,177	-	561,366
Due from Banks and other money market placements (net)	50,585	22,927	1,930	170,574	246,016
Loans, advances and islamic financing assets (net)	7,374,600	118,608	-	7,732	7,500,940
Financial investments	766,694	33,418	-	27,249	827,361
Property and equipment	158,857	3,340	317	-	162,514
Other assets	130,281	6,470	509	-	137,260
TOTAL ASSETS	**9,014,564**	**211,405**	**3,933**	**205,555**	**9,435,457**
Due to Banks and other money market deposits	14,935	264,694	32,000	438,301	749,930
Customers' deposits and unrestricted investment accounts	6,419,228	143,496	1,377	-	6,564,101
Euro medium term notes	500,000	-	-	-	500,000
Other liabilities	230,898	(12,047)	494	-	219,345
Taxation	24,369	49	434	-	24,852
Shareholders' equity	1,115,148	(42,353)	4,434	-	1,077,229
Tier 1 perpetual bond	300,000	-	-	-	300,000
LIABILITIES AND SHAREHOLDERS' EQUITY	**8,602,479**	**355,938**	**38,739**	**438,301**	**9,435,457**
CONTINGENT LIABILITIES	**691,107**	**47,728**	**-**	**94,690**	**833,525**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

31. CONCENTRATIONS *(CONTINUED)*

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2019 is as follows:

	SULTANATE OF OMAN	UAE	EGYPT	OTHERS	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	319,365	14,128	279	-	333,772
Due from Banks and other money market placements (net)	30,169	2,507	2,027	74,673	109,376
Loans, advances and islamic financing assets (net)	2,727,979	62,704	-	10,874	2,801,557
Financial investments	267,578	14,548	-	10,423	292,549
Property and equipment	64,159	733	155	-	65,047
Other assets	36,413	4,029	304	-	40,746
TOTAL ASSETS	3,445,663	98,649	2,765	95,970	3,643,047
Due to Banks and other money market deposits	5,753	70,561	20,790	186,682	283,786
Customers' deposits and unrestricted investment accounts	2,485,367	45,617	534	-	2,531,518
Euro medium term notes	192,500	-	-	-	192,500
Other liabilities	75,013	(5,625)	431	-	69,819
Taxation	12,960	173	88	-	13,221
Subordinated debt	-	-	-	-	-
Tier 1 perpetual bond	115,500	-	-	-	115,500
Shareholders' equity	448,581	(14,092)	2,214	-	436,703
LIABILITIES AND SHAREHOLDERS' EQUITY	3,335,674	96,634	24,057	186,682	3,643,047
CONTINGENT LIABILITIES	345,284	59,538	4,617	66,329	475,768
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	829,519	36,696	725	-	866,940
Due from Banks and other money market placements (net)	78,361	6,512	5,265	193,956	284,094
Loans, advances and islamic financing assets (net)	7,085,659	162,868	-	28,244	7,276,771
Financial investments	695,008	37,787	-	27,073	759,868
Property and equipment	166,646	1,904	403	-	168,953
Other assets	94,579	10,465	790	-	105,834
TOTAL ASSETS	8,949,772	256,232	7,183	249,273	9,462,460
Due to Banks and other money market deposits	14,943	183,275	54,000	484,888	737,106
Customers' deposits and unrestricted investment accounts	6,455,498	118,486	1,387	-	6,575,371
Euro medium term notes	500,000	-	-	-	500,000
Other liabilities	194,840	(14,610)	1,119	-	181,349
Taxation	33,662	449	229	-	34,340
Subordinated debt	-	-	-	-	-
Tier 1 perpetual bond	300,000	-	-	-	300,000
Shareholders' equity	1,165,146	(36,603)	5,751	-	1,134,294
LIABILITIES AND SHAREHOLDERS' EQUITY	8,664,089	250,997	62,486	484,888	9,462,460
CONTINGENT LIABILITIES	345,284	59,538	4,617	66,329	475,768

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

32. SEGMENTAL INFORMATION

For management purposes, the Bank is organised into four operating segments based on business units and are as follows:

- Retail Banking offers various products and facilities to individual retail and high networth customers to meet everyday Banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale Banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment Banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial Banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs.
- International operations include UAE and Egypt operations.
- Islamic Banking offers products as per Sharia principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the Bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the Bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

YEAR ENDED 31 DECEMBER 2020	RETAIL BANKING	WHOLESALE BANKING	COMMERCIAL BANKING	INTERNATIONAL BANKING	ISLAMIC BANKING	FUNDING CENTER	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	46,924	45,615	4,168	2,034	4,010	(11,847)	90,904
Other income	10,722	13,246	899	793	399	-	26,059
Operating income	57,646	58,861	5,067	2,827	4,409	(11,847)	116,963
Operating expenditure	(37,962)	(13,448)	(3,741)	(5,079)	(3,544)	(52)	(63,826)
OPERATING PROFIT/(LOSS)	19,684	45,413	1,326	(2,252)	865	(11,899)	53,137
Loan impairment (losses)/reversal	(4,974)	(26,350)	1,920	(396)	(1,622)	93	(31,329)
Net profit/(loss) before tax	14,710	19,063	3,246	(2,648)	(757)	(11,806)	21,808
Taxation	(1,516)	(1,965)	(335)	(1,061)	-	1,217	(3,660)
NET PROFIT/ (LOSS) AFTER TAX	13,194	17,098	2,911	(3,709)	(757)	(10,589)	18,148
TOTALASSETS	1,318,801	1,576,322	104,556	105,684	194,596	332,692	3,632,651
TOTAL LIABILITIES AND EQUITY	986,360	1,279,156	65,679	105,684	194,596	1,001,176	3,632,651

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

32. SEGMENTAL INFORMATION *(CONTINUED)*

YEAR ENDED 31 DECEMBER 2020	RETAIL BANKING	WHOLESALE BANKING	COMMERCIAL BANKING	INTERNATIONAL BANKING	ISLAMIC BANKING	FUNDING CENTER	TOTAL
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	121,880	118,480	10,826	5,283	10,416	(30,771)	236,114
Other income	27,850	34,405	2,335	2,060	1,036	-	67,686
Operating income	149,730	152,885	13,161	7,343	11,452	(30,771)	303,800
Operating expenditure	(98,603)	(34,930)	(9,717)	(13,192)	(9,205)	(135)	(165,782)
OPERATING PROFIT/(LOSS)	51,127	117,955	3,444	(5,849)	2,247	(30,906)	138,018
Loan impairment (losses)/reversal	(12,919)	(68,442)	4,987	(1,029)	(4,213)	242	(81,374)
Net profit/(loss) before tax	38,208	49,513	8,431	(6,878)	(1,966)	(30,664)	56,644
Taxation	(3,938)	(5,103)	(870)	(2,756)	-	3,161	(9,506)
NET PROFIT/ (LOSS) AFTER TAX	34,270	44,410	7,561	(9,634)	(1,966)	(27,503)	47,138
TOTAL ASSETS	3,425,457	4,094,343	271,574	274,504	505,444	864,135	9,435,457
TOTAL LIABILITIES AND EQUITY	2,561,974	3,322,483	170,595	274,504	505,444	2,600,457	9,435,457

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

32. SEGMENTAL INFORMATION *(CONTINUED)*

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i. Oman
ii. United Arab Emirates (UAE)
iii. Egypt

Transactions between the above segments are conducted at estimated market rates.

Segment information by geography is as follows:

FOR THE YEAR ENDED 31 DECEMBER 2020	OMAN	UAE	EGYPT	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	88,871	1,926	107	90,904
Other operating income	25,266	786	7	26,059
Operating income	**114,137**	**2,712**	**114**	**116,963**
Operating expenses	(60,392)	(3,059)	(375)	(63,826)
OPERATING PROFIT	**53,745**	**(347)**	**(261)**	**53,137**
Total impairment losses (net) and taxation	(33,643)	(1,101)	(245)	(34,989)
SEGMENT PROFIT FOR THE YEAR	**20,102**	**(1,448)**	**(506)**	**18,148**
OTHER INFORMATION				
SEGMENT ASSETS	**3,526,967**	**84,370**	**21,314**	**3,632,651**
SEGMENT CAPITAL EXPENSES	**2,267**	**60**	**-**	**2,327**

FOR THE YEAR ENDED 31 DECEMBER 2020	OMAN	UAE	EGYPT	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	230,834	5,003	278	236,115
Other operating income	65,626	2,042	18	67,686
Operating income	**296,460**	**7,045**	**296**	**303,801**
Operating expenses	(156,863)	(7,945)	(974)	(165,782)
OPERATING PROFIT	**139,597**	**(900)**	**(678)**	**138,019**
Total impairment losses (net) and taxation	(87,384)	(2,860)	(636)	(90,880)
SEGMENT PROFIT FOR THE YEAR	**52,213**	**(3,760)**	**(1,314)**	**47,139**
OTHER INFORMATION				
SEGMENT ASSETS	**9,160,953**	**219,143**	**55,361**	**9,435,457**
SEGMENT CAPITAL EXPENSES	**5,889**	**155**	**-**	**6,044**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

32. SEGMENTAL INFORMATION *(CONTINUED)*

Segment information by business line is as follows:

YEAR ENDED 31 DECEMBER 2019	RETAIL BANKING	WHOLESALE BANKING	COMMERCIAL BANKING	INTERNATIONAL BANKING	ISLAMIC BANKING	FUNDING CENTER	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	50,337	35,521	3,393	2,619	3,483	(1,322)	94,031
Other income	13,063	17,431	1,808	1,172	842	-	34,316
Operating income	63,400	52,952	5,201	3,791	4,325	(1,322)	128,347
Operating expenditure	(37,792)	(12,825)	(3,797)	(5,577)	(3,655)	-	(63,646)
OPERATING PROFIT/(LOSS)	25,608	40,127	1,404	(1,786)	670	(1,322)	64,701
Loan impairment (losses)/reversal	2,118	(3,332)	(560)	(5,767)	(291)	85	(7,747)
Net profit/(loss) before tax	27,726	36,795	844	(7,553)	379	(1,237)	56,954
Taxation	(2,330)	(3,091)	(71)	(135)	-	104	(5,523)
NET PROFIT /(LOSS) AFTER TAX	25,396	33,704	773	(7,688)	379	(1,133)	51,431
TOTAL ASSETS	1,282,842	1,533,639	91,515	120,280	166,942	447,829	3,643,047
TOTAL LIABILITIES AND EQUITY	845,295	1,415,739	102,987	120,280	166,942	991,804	3,643,047
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	130,745	92,262	8,813	6,803	9,047	(3,434)	244,236
Other income	33,930	45,275	4,696	3,044	2,187	-	89,132
Operating income	164,675	137,537	13,509	9,847	11,234	(3,434)	333,368
Operating expenditure	(98,160)	(33,312)	(9,862)	(14,486)	(9,494)	-	(165,314)
OPERATING PROFIT/(LOSS)	66,515	104,225	3,647	(4,639)	1,740	(3,434)	168,054
Loan impairment (losses)/reversal	5,502	(8,655)	(1,455)	(14,979)	(756)	221	(20,122)
Net profit/(loss) before tax	72,017	95,570	2,192	(19,618)	984	(3,213)	147,932
Taxation	(6,051)	(8,029)	(184)	(351)	-	270	(14,345)
NET PROFIT /(LOSS) AFTER TAX	65,966	87,541	2,008	(19,969)	984	(2,943)	133,587
TOTAL ASSETS	3,332,057	3,983,478	237,701	312,416	433,616	1,163,192	9,462,460
TOTAL LIABILITIES AND EQUITY	2,195,571	3,677,244	267,499	312,416	433,616	2,576,114	9,462,460

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

32. SEGMENTAL INFORMATION *(CONTINUED)*

Segment information by geography is as follows:

FOR THE YEAR ENDED 31 DECEMBER 2019	OMAN	UAE	EGYPT	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	91,412	2,111	508	94,031
Other operating income	32,911	1,213	192	34,316
Operating income	124,323	3,324	700	128,347
OPERATING EXPENSES	(59,664)	(3,497)	(485)	(63,646)
Operating profit	64,659	(173)	215	64,701
Total impairment losses (net) and taxation	(7,368)	(5,844)	(58)	(13,270)
SEGMENT PROFIT FOR THE YEAR	57,291	(6,017)	157	51,431
OTHER INFORMATION				
SEGMENT ASSETS	3,524,332	101,262	19,101	3,644,695
SEGMENT CAPITAL EXPENSES	3,527	131	2	3,660

FOR THE YEAR ENDED 31 DECEMBER 2019	OMAN	UAE	EGYPT	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	237,434	5,483	1,319	244,236
Other operating income	85,482	3,151	499	89,132
Operating income	322,916	8,634	1,818	333,368
OPERATING EXPENSES	(154,971)	(9,083)	(1,260)	(165,314)
Operating profit	167,945	(449)	558	168,054
Total impairment losses (net) and taxation	(19,138)	(15,179)	(151)	(34,468)
SEGMENT PROFIT FOR THE YEAR	148,807	(15,628)	407	133,586
OTHER INFORMATION	-	-		
SEGMENT ASSETS	9,154,109	263,018	49,613	9,466,740
SEGMENT CAPITAL EXPENSES	9,161	340	4	9,505

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2020 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

1. Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment.

Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

2. Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

3. Current account balances due to and due from Banks

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

4. Bank and customer deposits

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

5. Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

33. FAIR VALUE OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

TOTAL	LEVEL 2	LEVEL 1	31 DECEMBER 2020	LEVEL 1	LEVEL 2	TOTAL
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
			INVESTMENT MEASURED AT FVTPL			
2,266	**-**	**2,266**	Quoted equities	**872**	**-**	**872**
6,968	**6,968**	**-**	Unquoted equities	**-**	**2,683**	**2,683**
9,234	**6,968**	**2,266**	**TOTAL**	**872**	**2,683**	**3,555**
			INVESTMENT MEASURED AT FVOCI			
95,223	**-**	**95,223**	Quoted equities	**36,661**	**-**	**36,661**
842	**842**	**-**	Unquoted equities	**-**	**324**	**324**
96,065	**842**	**95,223**	**TOTAL**	**36,661**	**324**	**36,985**
105,299	**7,810**	**97,489**	**TOTAL FINANCIAL ASSETS**	**37,533**	**3,007**	**40,540**

TOTAL	LEVEL 2	LEVEL 1	31 DECEMBER 2019	LEVEL 1	LEVEL 2	TOTAL
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
			INVESTMENT MEASURED AT FVTPL			
13,123	-	13,123	Quoted equities	5,052	-	5,052
6,550	6,550	-	Unquoted equities	-	2,522	2,522
19,673	**6,550**	**13,123**	**TOTAL**	**5,052**	**2,522**	**7,574**
			INVESTMENT MEASURED AT FVOCI			
95,977	-	95,977	Quoted equities	36,951	-	36,951
859	859	-	Unquoted equities	-	331	331
96,836	**859**	**95,977**	**TOTAL**	**36,951**	**331**	**37,282**
116,509	**7,409**	**109,100**	**TOTAL FINANCIAL ASSETS**	**42,003**	**2,853**	**44,856**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

33. FAIR VALUE OF FINANCIAL INSTRUMENTS *(CONTINUED)*

The Bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 34).

34. DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

34. DERIVATIVES *(CONTINUED)*

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 DECEMBER 2020				NOTIONAL AMOUNTS BY TERM TO MATURITY		
	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT	WITHIN 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS
	RO'000 (note 9)	RO'000 (note 13)	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	**3,871**	**(3,871)**	**178,163**	**13,082**	**39,389**	**125,692**
Forward foreign exchange purchase contracts	**85**	**-**	**89,882**	**50,874**	**36,390**	**2,618**
Forward foreign exchange sales contracts	**569**	**(8)**	**89,882**	**50,604**	**36,043**	**3,235**
TOTAL	**4,525**	**(3,879)**	**357,927**	**114,560**	**111,822**	**131,545**
TOTAL – USD'000	**11,753**	**(10,075)**	**929,680**	**297,558**	**290,447**	**341,675**

31 DECEMBER 2019				NOTIONAL AMOUNTS BY TERM TO MATURITY		
	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT	WITHIN 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS
	RO'000 (note 9)	RO'000 (note 13)	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	1,179	(1,179)	131,301	13,132	55,181	62,988
Forward foreign exchange purchase contracts	372	(3)	242,030	57,789	53,092	131,149
Forward foreign exchange sales contracts	1,093	(212)	242,030	57,531	52,124	132,375
TOTAL	2,644	(1,394)	615,361	128,452	160,397	326,512
TOTAL – USD'000	6,868	(3,621)	1,598,341	333,642	416,616	848,083

35. COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2019 have been reclassified in order to conform with the presentation for the current year.

6

MUZN ISLAMIC BANKING

December 31, 2020

Report of Shari'a Supervisory Board
Muzn Islamic Banking Services
National Bank of Oman,
Oman.

In the name of Allah, the Beneficent, The Merciful

To the Shareholders of Muzn Islamic Banking Services

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the Letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Muzn Islamic Banking Services during the period ended. We have also conducted our review to form an opinion as to whether the Muzn Islamic Banking Services complied with Shari principles and also with the specific Fatawa, rulings and guidelines issued by us.

We conducted our review which included examining, on a test basis, of each type of transactions, the relevant documentation and procedures adopted by the Muzn Islamic Banking Services.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Muzn Islamic Banking Services has not violated Shari'a principles. In our opinion:

a) The Contracts, transactions, and dealings entered into by the Muzn Islamic Banking Services during the year ended 31st December 2020 that we have reviewed are in compliance with Shari'a principles.

b) The allocation of profit & charging of losses relating to investment account conform to the basis that had been approved by us in accordance with Shari'a principles.

c) No earnings have been realized from sources which are non-compliant with Shari'a principle. Late payment charges have been identified and recovered for disposal to charity.

d) Calculation and payment of Zakah is the individual responsibility of Shareholders and Depositors.

We beg Allah the Almighty to grant us all the success and straight forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Mohamed Bin Ali Elgari
Chairman Shari'a Supervisory Board

Annual Shari'a Compliance Report is signed by Chairman Muzn SSB for and on behalf of all Muzn SSB Members.

In the Name of Allah, the Most Beneficent, the Most Merciful, All praise be to Allah, the Lord of all the worlds, and blessings and peace be upon our master, Muhammad, and his household and all his companions.

Muzn Deposit Accounts based on Wakalah Bil Istithmar (Investment Agency)

The Shari'a Supervisory Board (SSB) of "Muzn Islamic Banking" in its meeting No. 04/2020 held on October 27, 2020, has reviewed the concept of Wakalah bil Istithmar based on which Muzn offers different deposit accounts. SSB pronounced as under:

- Investment Agency means appointing another person to invest and grow one's wealth, with or without a fee.
- Investment Agency is permissible subject to the relevant Shari'ah rules.
- The integral parts (Arkan) of a valid investment agency are offer and acceptance, the subject matter of the contract, and the two contracting acceptance (the principal and the agent).
- The principal is required to pay the investment agent's fees in accordance with stipulated time and manner.
- It is permissible to stipulate that the agent, in addition to his fee, , is entitled to all or part of any amount over and above the expected entitled to all or part of any amount over and above the expected profit as a performance incentive.
- The profit in its entirety is the right of the principal unless it is stipulated that the agent shall be entitled to all or part of any excess above the expected profit as a performance incentive in addition to its fixed fee.
- The agent acts in a fiduciary capacity in relation to the investment and therefore is not liable for any loss in cases other than willful misconduct, negligence, or breach of contract.

Sheikh Dr. Mohamed Bin Ali Elgari

Chairman Shari'a Supervisory Board

Fatwa is signed by Chairman Muzn SSB for and on behalf of all Muzn SSB Members.

KPMG

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Independent Auditors' Report on factual findings to the Board of Directors of Muzn Islamic Banking "Islamic Banking Window of National Bank of Oman SAOG" in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures ("the Disclosures") of Muzn Islamic Banking ("Muzn") set out on pages 1 to 28 as at and for the year ended 31 December 2020. The disclosures were prepared by the Management in accordance with requirements of IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012, were performed solely to assist you in evaluating the Muzn's compliance with the disclosure requirements set out in CBO's Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

We report our findings below:

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

Because the procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the Disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO; and we accept no liability or responsibility to any third party. This report relates only to the Muzn's Disclosures and does not extend to the financial statements of the Muzn taken as a whole or to any other reports of the Muzn.

KPMG
KPMG LLC

16 March 2021

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

CR No. 1358131

Tax Card No. 8063052

INTRODUCTION

Muzn Islamic Banking– window of national bank of Oman SAOG, was established in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Sharia rules and regulations.

Muzn operates under an Islamic Banking license granted by the Central Bank of Oman on 17 January 2013. Muzn's Sharia Supervisory Board is entrusted to ensure adherence to Sharia rules and principles in its transactions and activities. A complete set of financial statements of Muzn is included in the consolidated financial statements of the bank. This document presents Basel II, Pillar III disclosure pertaining to Muzn on a standalone basis. There is no restriction on the transfer of the funds from the bank towards Muzn. However, under the Islamic Banking regulatory framework (IBRF), Muzn cannot place funds with the bank. Muzn does not hold controlling interest in any other entity.

THE ASSIGNED CAPITAL OF THE MUZN ISLAMIC BANKING AS AT **31 DECEMBER 2020 IS RO 20,000,000.**

CAPITAL STRUCTURE

Muzn's capital structure as at close of 31 December 2020, based on Central Bank of Oman's (CBO) guidelines is as follows:

(RO'000)

ELEMENTS OF CAPITAL	AMOUNT
Tier I capital	
Local Banks	
Paid-up capital	20,000
Share premium	-
Legal reserve	-
General reserve	-
Subordinated debt reserve	-
Stock dividend(Proposed)	-
Retained earnings	1,040
Common equity Tier 1 before regulatory adjustments Deduction	**21,040**
Deferred tax asset	-
Common equity Tier I	**21,040**
TIER I CAPITAL AFTER ALL DEDUCTIONS	21,040
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	-
General loan loss provision / General loan loss reserve	934
Subordinated debt (After amortization)	-
Total Tier II capital	934
Total regulatory capital	**21,974**
Amount of investment account holders funds	7,113
Profit equalization reserve	462
Investment risk reserve	183
TOTAL INVESTMENT ACCOUNT HOLDERS	**7,758**

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

CAPITAL ADEQUACY

QUALITATIVE DISCLOSURES:

The ultimate objectives of capital management are three fold:

- Ensure stability of the Islamic window by holding enough capital to cover unexpected loss
- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily).
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for Muzn is based on the regulatory risk capital framework of Basel II and uses the standardized approach for calculating the credit as well market risk, and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy is aligned to the policy of the Bank, and aims to ensure that on a risk adjusted return on capital basis (RAROC), Muzn is allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on profit rates, which are followed.

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirement for capital on an ongoing basis both for the Muzn window and its divisions that require capital to be assigned separately. Risk weights are assigned to assets as per regulatory requirements from CBO. Assets funded by investment accounts are also assigned same risk weights as assets funded by own equlty.

QUALITATIVE DISCLOSURES:

A set of triggers is followed as part of the capital management so as to provide the Bank with an early warning system in terms of its level of capital, and to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits. For this purpose it has been decided by ALCO that the triggers set for the Bank will become applicable for Muzn as well.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP comprehensively for the whole bank is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The Bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment. Currently, a separate ICAAP is not prepared for Muzn.

QUALITATIVE DISCLOSURES:

Position as at 31.12.2020 (RO'000)

DETAILS	AMOUNT
Tier I capital (after supervisory deductions)	**21,040**
Tier II capital (after supervisory deductions & up to eligible limits)	**934**
Risk Weighted Assets (RWAs) – Banking Book	**127,720**
Risk Weighted Assets (RWAs) –Operational Risk	**7,009**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**134,729**
Minimum required capital to support RWAs of banking book and operational risk	16,504
Minimum required capital comprises of;	
i. Tier I capital	15,571
ii. Tier II capital	934
Balance Tier I capital available for supporting trading book	5,470
Balance Tier II capital available for supporting trading book	-
Risk Weighted Assets (RWAs) – Trading Book	**2,367**
Total capital required to support trading book	289.9
TOTAL REGULATORY CAPITAL	**21,974**
TOTAL RISK WEIGHTED ASSETS – ISLAMIC WINDOW	**137,096**
BIS CAPITAL ADEQUACY RATIO	**16.03**

BASEL II – PILLAR III AND BASEL III REPORT 2020

CAPITAL ADEQUACY *(CONTINUED)*

BASEL III DISCLOSURES:

In compliance with CBO circular BM 1114 dated 17 November 2013; mandatory disclosures are made in this report. Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.2020 (RO'000)

DETAILS	GROSS BALANCE (BOOK VALUE)	NET BALANCE (BOOK VALUE)	RISK WEIGHTED ASSETS
On balance sheet items	195,061	192,653	123,118
Off balance sheet items	5,270	5,270	4,603
Derivatives	-	-	-
Operational Risk	-	-	7,009
Market Risk	-	-	2,367
TOTAL	**200,331**	**197,923**	**137,096**
Common equity Tier I capital	-	-	21,040
Tier II Capital	-	-	934
Tier III Capital	-	-	-
TOTAL REGULATORY CAPITAL	-	-	**21,974**
Total required capital	-	-	16,794
Capital requirement for credit risk	-	-	15,646
Capital requirement for market risk	-	-	289
Capital requirement for operational risk	-	-	859
COMMON EQUITY TIER I RATIO	-	-	**0**
TIER I RATIO	-	-	**15.35**
TOTAL CAPITAL RATIO	-	-	**16.03**

DISCLOSURES FOR INVESTMENT ACCOUNT HOLDERS (IAH)

Muzn accepts funds from investment account holders (IAH) under Sharia compliant Mudaraba contracts and Wakala agreements. These funds are unrestricted in nature i.e. it is at the discretion of Muzn to invest in any Sharia compliant assets. There are no limits on the investment of IAH fund in any particular type of asset.

Currently, Muzn offers three types of Investment accounts:

- Savings accounts,
- Term deposits of various maturities from 1 month to five years and
- Flex Wakala

Investment from investment account holders (IAH) is pooled with Muzn's funds. Mudarib (Manager of assets) expenses are charged to a pool which includes all direct expenses incurred, including impairment provisions. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, and after charging Mudarib expenses, allocation is made between shareholder funds and funds of IAH.

Under Wakala arrangement for Islamic Wakala Investment, the customer becomes the Principal (Muwakkil), and Muzn becomes the Investment Agent (Wakeel) for the funds invested by the customer. Muzn will accept deposits from Wakala Investment holders under a Wakala agreement and allocate these funds to an investment pool. While accepting the deposit from the customers, Bank informs the "Expected Targeted Profit Rate" on the deposit. Funds from this investment pool will be utilized to provide financing to customers under Islamic modes and to invest in other Shari"a compliant investments opportunities. The profit earned from the investment and financing activities from the investment pool, shall be paid to the investors (as the Muwakkil) based on their pre-assigned weightages less performance fee and the fixed fees payable to the bank (as a Wakeel). Investor's share of profit shall be returned to the investors together with the principal on maturity date.

Muzn appropriates an amount in excess of the profit to be distributed to investment account holders before taking into consideration the Mudarib (Manager of assets) share of income. This reserve is called Profit Equalization Reserve (PER). Further, Investment Risk Reserve (IRR) is also maintained out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders.

BASEL II – PILLAR III AND BASEL III REPORT 2020

CAPITAL ADEQUACY *(CONTINUED)*

RATIOS AND RETURNS

Profit Equalization Reserve (PER) to Profit Sharing Investment Account (PSIA)

PARTICULARS (RO'000)	2020	2019
Amount of Total PER	**462**	381
Amount of PSIA by IAH	**7,113**	5,849
PER to PSIA Ratio	**6.50%**	6.51%

Investment Risk Reserves Reserve (PER) to Profit Sharing Investment Account (PSIA)

PARTICULARS (RO'000)	2020	2019
Amount of Total IRR	**183**	148
Amount of PSIA by IAH	**7,113**	5,849
IRR to PSIA Ratio	**2.57%**	2.53%

Return on Assets (ROA)

PARTICULARS (RO'000)	2020	2019
Amount of total net income (before distribution of profit to unrestricted IAH)	**1,897**	1,549
Amount of assets	**192,653**	164,426
Return on assets (ROA)	**0.98%**	0.94%

Return on Equity (ROE)

PARTICULARS (RO'000)	2020	2019
Amount of total net income (after distribution of profit to unrestricted IAH)	**1,864**	1,514
Amount of equity	**21,645**	19,783
Return on equity (ROE)	**8.61%**	7.65%

Rate of profit distributed to PSIA by type of IAH & Wakala Accounts

As at reporting date, Muzn has unrestricted IAH and Wakala Accounts and has distributed profit amounting RO 4,872,000 during the year.

Latest Profit rates paid to investment account holders for quarter ended 31 December 2020.

Jointly Funded Assets and Return to IAH

	WEIGHTAGES	DECLARED PROFIT RATE
Savings Account (Mudarabah)	**15**	**0.52%**
Flexi Wakala	**50**	**0.10%**
Flexi Wakala - Elite	**50**	**2.25%**
Flexi Wakala - Premium	**30**	**1.75%**
Wakala- Upto 6 months	**40**	**0.10% - 0.25%**
Wakala -> 6months to 1 Year	**55**	**0.40% - 0.75%**
Wakala -> 1 Year to 3 Years	**80**	**1.75% - 2.50%**
Wakala -> 3 Years	**100**	**3.00% - 3.50%**
Government Flexi Wakala	**60**	**0.75%**

	31 DECEMBER 2020	31 DECEMBER 2019
Assets		
Deferred sale receivable under Murabaha	**2,823**	2,215
Ijara Muntahia Bittamleek	**71,659**	77,946
Diminishing Musharaka	**74,414**	56,208
Forward Ijara	**-**	4,080
Service Ijarah	**22**	27
TOTAL AMOUNT INVESTED	**148,918**	140,476
Share of profit of IAH before PER and IRR for the year	**4,988**	3,999
Transfers to:		
PER	**(81)**	(71)
IRR	**(35)**	(31)
Share of profit of IAH after PER and IRR for the year	**4,872**	3,898

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

RISK EXPOSURE AND ASSESSMENT:

RISK MANAGEMENT

The primary objective of risk management is to appropriately safeguard the Bank's resources from the various risks which the Bank faces. Muzn's risk management incorporates the same essential principles and practices that govern the Bank's risk management which are detailed in the Bank's Basel II disclosures.

Bank's risk management processes have proven effective for Muzn throughout the current year. The bank's Board of Directors has remained closely involved with key risk management initiatives, and ensured that Muzn's risks are effectively managed and adequate capital is held in line with the requirements. Detailed risk governance structure of the bank, which is also applicable to Muzn is disclosed in the main Pillar III document of the bank. In addition, a dedicated Sharia Supervisory Board (SSB) has been established which reports to the Board of Directors of the bank and ensures Sharia compliance in the operations of Muzn.

Specifically, Muzn has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk, and
- Displaced commercial risk

CREDIT RISK

Credit risk is the risk of financial loss to Muzn if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Muzn's financings and advances to customers and other banks.

Corporate Credit:

Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Muzn has a conservative provisioning policy for its financings and provisions are made taking into account both the Central Bank's norms and international financial standards.

For risk management reporting purposes for the corporate portfolio, Muzn considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Retail Credit:

Retail Credit Division manages the credit risk in the Muzn retail portfolio. The small retail credit portfolio is focused on Ijara, Murabaha and Diminishing Musharaka product programs approved by the Board Risk Committee. Both corporate and retail credit portfolios are monitored by the management through periodic performance reports which are presented to the Board Risk Committee.

Impairment Loss on Finances:

Muzn reviews its individually significant Finances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. Judgment by management is required in the estimation of the amount and timing of future cashflows when determining the impairment loss. In estimating these cashflows, Muzn makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes to the allowance.

Finances that have been assessed individually and found not to be impaired and all individually insignificant finances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilization, finance to collateral ratios etc.) and concentration risks.

A) Definition of default and cure

The Window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Window considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers

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whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Window
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decreases in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral
- A material decreases in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Window
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection - Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

B) Incorporation of forward-looking information

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

Given the nature of the Window's exposures and availability of historical statistically reliable information, the Window derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

C) Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

- historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
- size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,
- the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

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D) Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises secured personal financing and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

E) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Window determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Window's models.

F) Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Window estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

G) Significant Increase in Credit Risk

The Window continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Window assesses whether there has been a significant increase in credit risk since initial recognition.

The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

- Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
- Delay in documentation execution over 35 days from limit set up due to disputes with customers.
- Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
- Frequent changes in key senior management personnel without acceptable successors or professional management.
- Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
- Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
- Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
- A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
- A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
- Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
- Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times

H) Model risk management:

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Window has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Window in terms of usage of models.

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i. Total gross credit exposures over the period broken down by major types of credit exposure:

RO'000

S. NO	TYPE OF CREDIT EXPOSURE	TOTAL GROSS EXPOSURE AS AT	
		31-December-20	31-December-19
1	Deferred sales under Murabaha	**2,831**	2,225
2	Ijara Muntahia Bittamleek	**72,513**	79,015
3	Diminishing Musharaka	**75,928**	56,641
4	Forward Ijara	**-**	4,094
5	Service Ijarah	**22**	27
	TOTAL	**151,294**	142,002

ii. **Geographic distribution of exposures by major types of credit exposure as at 31 December 2020:**
As at 31 December 2020, all the credit exposures are within Oman only (2019: all exposures within Oman).

iii. Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2020:

RO'000

S. NO	ECONOMIC SECTOR	DEFERRED SALES UNDER MURABAHA	IJARA MUNTAHIAH BITTAMLEEK	DIMINISHING MUSHARAKA	FORWARD IJARA	SERVICE IJARAH	TOTAL	PERCENTAGE COMPOSITION	OFF BALANCE SHEET EXPOSURE**
1	Personal	1,952	60,432	6,875	-	22	69,281	46%	1,120
2	Construction	-	7,884	18,961	-	-	26,845	18%	18,307
3	Manufacturing	87	202	12,307	-	-	12,596	8%	-
4	Trade	507	23.00	600	-	-	1,130	1%	-
5	Services	285	3,972	37,185	-	-	41,442	27%	-
6	Others	-	-	-	-	-	-	0%	1048
	TOTAL	**2,831**	**72,513**	**75,928**	**0**	**22**	**151,294**	**100%**	**20,475**

** Off balance sheet exposure relates to commitments under standard business norms, letter of credits & guarantees.

As at 31 December 2020, the assets were funded by IAH & Wakala Account and shareholders in the following ratio:

IAH & WAKALA ACCOUNTS	**78%**
SHAREHOLDERS	**22%**

iv. Residual contractual maturity as at 31 December 2020 of the whole financing portfolio, broken down by major types of credit exposure:

RO'000

S. NO	TIME BAND	DEFERRED SALES UNDER MURABAHA	IJARA MUNTAHIAH BITTAMLEEK	DIMINISHING MUSHARAKA	FORWARD IJARA	SERVICE IJARA	TOTAL
1	Up to 1 month	146	672	490	-	-	1,308
2	1-6 months	1,161	9,013	28,336	-	9	38,519
3	6-12 months	833	507	5,175	-	3	6,518
4	1-5 years	242	4,571	674	-	2	5,489
5	Over 5 years	441	56,896	39,739	-	8	97,084
	TOTAL	**2,823**	**71,659**	**74,414**	**-**	**22**	**148,918**

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v. Movement of gross finance

RO'000

S. NO	DETAILS	STAGE1	STAGE 2	STAGE 3	TOTAL
1	Opening balance	103,824	35,962	2,216	142,002
2	Migration / changes (+ / -)	590	(1,795)	1,206	1
3	New Finances	13,590	2,760	113	16,463
4	Recovery of Financing	6,380	-	792	7,172
5	Closing balance	111,624	36,927	2,743	151,294
	TOTAL ECL	**698**	**511**	**1,167**	**2,376**

vi. Movement of Provisions and Reserve Profit

RO'000

PARTICULARS	2020	2019
Provision at beginning of the period	**1,526**	1,269
Charge / (Released) for the period	**768**	206
Reserve Profit for the period	**82**	52
Provision at end of the period	**2,376**	1,526

CREDIT RISK – DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Qualitative Disclosures:

- The Bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the Bank uses the discretion to treat Finances as unrated at risk weight of 100%, except housing finances which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the Bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2020, subject to the standardized approach is as below:

RO'000

S. NO	PRODUCT / RATING	CARRYING 0%	CARRYING 20%	CARRYING 35%	CARRYING 50%	CARRYING 100%	CARRYING 150%	TOTAL
	Rated							
1	Sovereign	33,805	-	-	-	-	-	33,805
2	Banks	-	1,911	-	3,322	-	-	5,233
	Unrated							
1	Corporate	-	-	-	-	-	-	-
2	Retail	-	-	-	-	2,843	-	2,843
3	Claims secured by residential property	-	-	52,820	-	13,609	-	66,429
4	Claims secured by commercial property	-	-	-	-	79,267	-	79,267
5	Past due Financing	-	-	-	-	2,755	-	2,755
6	Other assets	1,109	-	-	-	3,620	-	4,729
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	-	476	4,221	572	-	-	5,270
	TOTAL BANKING BOOK	**34,914**	**2,387**	**57,041**	**3,894**	**102,094**	**-**	**200,330**

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CREDIT RISK MITIGATION

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Muzn is exposed to. Credit risk mitigates reduce the credit risk by allowing Muzn to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Qualitative Disclosure

The Bank only considers Sharia approved collaterals and guarantees to mitigate credit risk. Assets offered by the customer must meet the following criteria to be acceptable as collateral:

- Assets must be maintaining their value at the level prevalent at inception, until maturity of the facility approved;
- Such assets should be easily convertible into cash, if required;
- There should be a reasonable market for the assets; and
- Muzn should be able to enforce its right over the assets if necessary.

Currently Muzn undertakes ownership/joint ownership of assets provided by customers.

Collateral Management:

Muzn employs a range of policies and procedures to mitigate credit risk. The credit risk mitigates include collaterals like:

- Real estate
- Joint ownership

Collateral management is exercised for Muzn at the centralized level. A robust collateral management system is in place to mitigate any credit risk. The Bank has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals.

Securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

LIQUIDITY RISK

Qualitative Disclosures:

Liquidity may be defined as a Muzn's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a Muzn's potential inability to meet its liabilities when they become due.

Besides its funding sources, Muzn has the support of its Parent Bank in meeting some of its liquidity needs.

The liquidity risk in Muzn is monitored through a regular reporting mechanism to the ALCO. In order to ensure that Muzn meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Sufficient liquidity is required to be maintained by Banks not only for ensuring the continuation of operations, but also for the generation of earning assets and repayment of existing liabilities.

Liquidity ratios of Muzn (i.e. Liquid assets to total assets) are regularly monitored. The average ratio of liquid assets to total assets during the year for Muzn was 21.61% (as shown below). In addition, the cumulative gaps vis-à-vis cumulative liabilities prescribed by the Regulators/Internal Policies are monitored.

Muzn monitors its liquidity risk of funding related to current accounts and other equity with investment account holders on an individual basis as well as on an aggregate basis through cash flow and stock approach.

Treasury department of the Muzn window and the Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Sharia compliant financing and investment activities.

Average ratio of liquid assets to total assets during the year for Muzn was

21.61%

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Indicators of exposure to liquidity risk – short-term assets to short-term liabilities

PARTICULARS	RO'000
Short-term Assets	71,545
Short-term Liabilities	**124,977**
Short-term Assets to Liabilities	**57.25%**

Indicators of exposure to liquidity risk - liquid assets ratio

PARTICULARS	RO'000
Liquid Assets	41,628
Total Assets	192,653
Short-term Liabilities	124,977
Total Liabilities	171,008
Liquid Assets to Total Assets	**21.61%**
Liquid Assets to Short-term Liabilities	**33.31%**
Liquid Assets to Total Liabilities	**24.34%**

Quantitative Disclosures:
The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2020 was as follows:

	DUE ON DEMAND AND UP TO 30 DAYS	MORE THAN 1 MONTH TO 6 MONTHS	MORE THAN 6 MONTHS TO 12 MONTHS	MORE THAN 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
31 December 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	14,368	1,660	861	614	993	18,496
Financial institutions	5,232	-	-	-	-	5,232
Financial assets at amortized cost	532	969	-	-	16,398	17,899
Deferred sales under Murabaha	146	1,161	833	242	441	2,823
Ijarah Muntahiah Bittamleek – net	672	9,013	507	4,571	56,896	71,659
Diminishing Musharaka	490	28,336	5,175	674	39,739	74,414
Forward Ijarah	-	-	-	-	-	-
Service Ijarah	-	9	3	2	8	22
Property and equipment – net	-	-	-	-	530	530
Other assets	1,578	-	-	-	-	1,578
TOTAL ASSETS	**23,018**	**41,148**	**7,379**	**6,103**	**115,005**	**192,653**
Current accounts	2,017	3,530	2,018	-	2,522	10,087
Wakala accounts	19,096	55,911	28,007	9,839	29,467	142,320
Due to banks and financial institutions	5,828	-	-	-	-	5,828
Other liabilities	5,015	-	-	-	-	5,015
Unrestricted investment account holders	711	1,422	1,422	2,135	2,068	7,758
Owner's equity	-	-	-	-	21,645	21,645
TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY	**32,667**	**60,863**	**31,447**	**11,974**	**55,702**	**192,653**

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MARKET RISK

Qualitative Disclosures:

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia includes equity prices, bond price, commodity price and Foreign Exchange rates. The objective of Market Risk management is to facilitate business growth but operating at the optimal risk levels.

As at 31 December 2020, Muzn has minimal exposure to market risk as:

- Muzn does not have material exposure in currencies other than Omani Riyal;
- Muzn does not hold trading positions in equity;
- Muzn has no position in commodities.

Market Risk arises from fluctuations in profit rates. There are no trading positions in equities or derivatives. Market Risk is managed based on Central Bank of Oman guidelines. The Muzn ALCO regularly monitors the portfolio of assets and liabilities in the banking book for any interest rate risks. Stress tests are also conducted periodically to analayze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committee.

Liquidity Risk

Liquidity Risk is defined as the ability to suitably sell the assets and meet obligations as they come due, is crucial to the ongoing viability of a banking organization. For this reason, the analysis of liquidity requires the bank management to not only measure the liquidity position of the bank on an on-going basis but also examine how funding requirements are likely to evolve under various scenarios.

Muzn manages its liquidity on a daily basis through its Treasury. In managing liquidity, Muzn takes into account the various regulatory requirements.

Muzn Treasury division ensures compliance with the liquidity ratios and the maturity gaps vis-à-vis the regulatory/in house caps/limits.

Market Risk and Muzn Treasury divisions will evaluate on an on-going basis the liquidity profile of the Bank, depending on the changing market conditions. Liquidity will be estimated under Bank specific crisis scenarios and Market crisis scenarios; with suitable assumptions built into each scenario.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. Muzn cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Muzn is able to manage risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The Bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net profit income (+) other income (+) Provisions for unpaid profit (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income.

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO (000s) 450.

The Risk weighted assets for operational risk as per Basel II is RO (000s) 5,626.

Insurance is another tool used by the bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the bank aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the bank has set in place a special operational risk framework against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigates are put in place.

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RATE OF RETURN RISK

Qualitative Disclosures:

Rate of return risk refers to the possible impact on the net income of Muzn arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Muzn.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Muzn is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Muzn' s results do not allow distribution of profits in line with market rates. To cater against DCR, Muzn creates a Profit Equalization Reserve.

Rate of return risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the profit sensitivity of earnings and profit rate sensitivity of capital.

AS AT DECEMBER 2020	200 BPS INCREASE	200 BPS DECREASE
Earnings impact - RO'000s	502	(502)

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RATE OF RETURN RISK *(CONTINUED)*

Muzn's profit sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2020 was as follows:

	EFFECTIVE AVERAGE PROFIT RATE	DUE ON DEMAND AND 6 WITHIN MONTHS	DUE WITHIN 12 TO 7 MONTHS	DUE 1 WITHIN YEARS 5 TO	DUE AFTER YEARS 5	NON-PROFIT BEARING	TOTAL
31 DECEMBER 2020	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	18,496	18,496
Due from banks and financial Institutions	0.0%	3,000	-	-	-	2,232	5,232
Financial assets at amortized cost	5.1%	968	2,986	4,357	9,588	-	17,899
Deferred sales under Murabaha	5.4%	1,307	833	242	441	-	2,823
Ijarah Muntahia Bittamleek – net	5.3%	9,685	507	4,571	56,896	-	71,659
Diminishing Musharaka	5.8%	28,826	5,175	674	39,739	-	74,414
Forward Ijarah	N/A	-	-	-	-	-	-
Service Ijarah	6.0%	9	3	2	8	-	22
Property and equipment – net	N/A	-	-	-	-	530	530
Other assets	N/A	-	-	-	-	1,578	1,578
TOTAL ASSETS		**43,795**	**9,504**	**9,846**	**106,672**	**22,836**	**192,653**
Current accounts	N/A	-	-	-	-	10,087	10,087
Wakala accounts	3.8%	75,007	28,007	9,839	29,467	-	142,320
Due to banks and financial institutions	2.1%	5,828	-	-	-	-	5,828
Other liabilities	N/A	-	-	-	-	5,015	5,015
Unrestricted investment accountholders	0.7%	2,133	1,422	2,135	2,068	-	7,758
Owners' equity	N/A	-	-	-	-	21,645	21,645
TOTAL LIABILITIES AND OWNERS' EQUITY		**82,968**	**29,429**	**11,974**	**31,535**	**36,747**	**192,653**
ON-BALANCE SHEET GAP		**(39,173)**	**(19,925)**	**(2,128)**	**75,137**	**(13,911)**	
CUMULATIVE PROFIT SENSITIVITY GAP		**(39,173)**	**(59,098)**	**(61,226)**	**13,911**	**-**	

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

DISPLACED COMMERCIAL RISK

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Muzn in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed to in Mudaraba funding contracts. Muzn creates and manages both PER and Investment risk reserve to smoothen IAH returns. Further, Muzn also adjusts its Mudarib share in order to smoothen returns of IAH.

Qualitative Disclosure:

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- **Profit Equalization Reserve (PER)**
  PER comprises amount appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- **Investment Risk Reserve (IRR)**
  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

An analysis of distribution during the year to IAH by Muzn is as follows:

PARTICULARS	**AMOUNT** RO'000
Total profits available for distribution	8,920
• Share of IAH	4,988
Profits for IAH before smoothening	4,988
Smoothening:	
• PER	(81)
• IRR	(35)
Profits paid out to IAH after smoothening	4,872

- During the period the Bank utilized OMR Nil (FY 2019: Nil) from PER for the purpose of enhancing the returns to depositors.
- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

Historical Rate of Return of IAH:

HISTORICAL RATE OF RETURN OF UNRESTRICTED INVESTMENT ACCOUNTHOLDER:	2020	2019	2018	2017	2016
	RO '000	RO '000	RO '000	RO '000	RO '000
Profits available for distribution	**8,920**	6,617	5,634	4,512	3,674
Profit Distributed	**4,872**	3,898	3,352	3,061	1536
Funds Invested	**148,918**	140,476	116,565	102,781	105,099
Rate as %age of fund invested	**3.27%**	2.77%	2.88%	2.98%	1.46%

BASEL II – PILLAR III AND BASEL III REPORT 2020

Five years comparison of historical profit rates for unrestricted IAH.

	2020	2019	2018	2017	2016
Savings Account (Mudarabah)	0.52%	0.46%	0.77%	0.70%	0.73%
Flexi Wakala	0.10%	0.10%	0.10%	0.10%	0.10%
Flexi Wakala - Elite	2.25%	2.25%	2.25%	2.25%	2.25%
Flexi Wakala - Premium	1.75%	1.75%	1.75%	1.75%	-
Wakala- Upto 6 months	0.10% - 0.25%	0.10% - 0.40%	0.10% - 0.25%	0.10% - 0.25%	0.10% - 0.25%
Wakala - > 6months to 1 Year	0.40% - 0.75%	0.40% - 1.75%	0.40% - 0.75%	0.40% - 0.75%	0.40% - 0.75%
Wakala - > 1 Year to 3 Years	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%
Wakala - > 3 Years	3.00% - 3.50%	2.50% - 3.50%	3.00% - 3.50%	3.00% - 3.50%	3.00% - 3.50%
Government Flexi Wakala	0.75%	0.75%	1.00%	1.00%	0.50%

Contract Specific Risks

The Credit Risk Appetite document of Muzn has provided limits for the purpose of financing, it is defined within the purpose of financing are the various Shari'a compliant financing contracts that can be used. The risk weighting requirement for each of the Sharia compliant financing contracts, based on the risk profile of the customer as provided in the IBRF is taken into account for the purposes of computing the Capital Adequacy Ratio of Muzn.

Quantitative Disclosures:

Credit risk weighted assets by type of financing contracts is as follows:

RO'000

FINANCING CONTRACTS	RISK WEIGHTED ASSETS AMOUNT '000
Deferred sales receivable under Murabaha	2,831
Ijarah Muntahia Bittamleek	41,698
Diminishing Musharaka	71,242
Forward Ijarah	-
Service Ijarah	22
Letter of Guarantee	286
Letter of Credit	95
TOTAL RWA OF FINANCING CONTRACTS	116,175
TOTAL RWA FROM NON-FINANCING CONTRACTS	11,545
TOTAL RWA – BANKING BOOK	127,720

General Governance Disclosures

The CMA code of Corporate Governance for Public Listed Companies and the CBO guidelines as per IBRF Corporate Governance and Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Muzn complies with all their provisions.

The following disclosure summarizes the disclosures of related party:

RO'000

DEPOSITS AND OTHER ACCOUNTS	2020	2019
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	537	543
Financings		
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	58	89

REMUNERATION PAID TO DIRECTORS & SHARIA SUPERVISORS	2020	2019
Chairman		
• remuneration proposed	8	8
• sitting fees paid	2	2
• other expenses paid	-	2
Other Directors		
• remuneration proposed	15	15
• sitting fees paid	9	8
• other expenses paid	-	9
Management fee payable to conventional banking	93	85

BASEL II – PILLAR III AND BASEL III REPORT 2020

Muzn maintains a formal procedure on handling of customer complaints. Complaints related to Muzn are dealt with by the conventional banking call center equipped with the required resources to respond to customer calls in a professional manner. The complaint management team of the Conventional Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint.

Sharia Governance Disclosures

Sharia Supervisory Board (SSB)

Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn comply with the principles of Shari'a.

In case SSB rules any earnings Sharia non-compliant, such income is diverted to a charity account and disbursed to charitable organization. Income generated from late payment charges (whereby client undertakes to donate to charity a certain amount in case of delay in installment payments) and whenever a transaction which is treated as Shari'a non-Compliant by Sharia Audit Unit and endorsed by SSB, the income from such Shari'a non-compliant account becomes part of charity Account.

The Internal Sharia reviewer performs functions based on the Shari'a guidelines provided by CBO in the IBRF, Sharia rulings and resolutions issued by SSB. Sharia audit includes continuous audit for transactions of all departments. Its observations and findings are reported in the Sharia audit report to SSB which is also conveyed and discussed with management, with documentation of management responses in addition to recommending action plan for each observation.

As per IBRF, Islamic banks are required to apply Accounting standards issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines.

Muzn's Sharia Supervisory Board consists of following members namely:

Sheikh Dr. Mohamed Bin Ali Elgari, is a Professor of Islamic Economics at King Abdulaziz University, Saudi Arabia. He is an Expert at the Islamic Jurisprudence Academy of the Organization of Islamic Cooperation (OIC) and the Islamic Jurisprudence Academy of the Islamic World League. Sheikh Elgari is also a member of the Sharia Council of Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI), Chairman Sharia Supervisory Board of Muzn Islamic Banking Services and Sharia Board Member of several reputable Islamic Banks and Takaful Companies across the globe.

Sheikh Datuk Dr. Mohamed Daud Bakar, is a Malaysian Sharia Scholar and Chairman of the Central Sharia Advisory Council of the Central Bank of Malaysia and Securities Commission of Malaysia. Sheikh Bakar's area of specialization includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Datuk Dr. Bakar has published more than 30 articles in academic journals while also being a member of several Sharia Boards for Banks and Islamic financial institutions worldwide.

Sheikh Saleh Al Kharusi, is a Director of the Notary Public Office Ministry of Justice and a part-time lecturer of Sharia sciences. Sheikh Saleh has bachelor's degree in Shari'a from the Institute of Shari'a Sciences in the Sultanate of Oman and Master's Degree in Financial Transaction from Sultan Qaboos University.

H.H Sayyid Dr. Adham Turki Al Said, is an Assistant Professor of Economics at Sultan Qaboos University in Oman. H.H Dr. Adham is Chairman of the Board of Directors of the Competition Protection and Monopoly Prevention Center, and a Chairman of Board of Trustees, Scientific College of Design. He is also a member in several government and private organizations such as Partner, The Firm for Business and Economic Consulting and he provided a proposal on SME to Shura Council in 2014. Dr. Adham has a Ph.D. in Economics from University of Western Australia, Australia — 2011.

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

There were a total of four SSB meetings held in 2020. Date of the meetings and attendance of each SSB Member is follows:

NAME OF THE BOARD MEMBER	DATE OF MEETING AND ATTENDANCE			
	27/04/2020	18/08/2020	27/10/2020	27/12/2020
Sheikh Dr. Mohamed Bin Ali Elgari- Chairman	√	√	√	√
Sheikh Datuk Dr. Mohammed Daud Bakar	√	√	√	√
Sheikh Saleh Al Kharusi	√	√	√	√
H.H Sayyid Dr. Adham Al Said Non-Voting Member	√	√	√	√

Remuneration for Sharia Supervisory Board Members in 2020:
Total Remuneration paid to the Four Scholars for the year 2020 was OMR 29,260. The breakup is as follows:

NAME OF THE BOARD MEMBER	TOTAL FEES (RO)
Sheikh Dr. Mohamed Bin Ali Elgari	9,240
Sheikh Datuk Dr. Mohammed Daud Bakar	7,315
Sheikh Saleh Al Kharusi	7,315
H.H Sayyid Dr. Adham Al Said Non-Voting Member	5,390

Sharia compliance key controls

Sharia compliance is ensured in day to day business of Muzn through the following key controls:

- All the products being offered by Muzn are approved by the SSB;
- All investments made by Muzn are approved by SSB;
- The Fatawa approving such products are available on the website of Muzn;
- The responsibility of payment of zakat is on individual shareholders and investment account holders;
- There has been no non-compliance with Sharia rules and regulations during the year;
- Muzn has in place a Sharia Compliance Unit (SCU) which facilitates the management in ensuring compliance with Sharia (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions. This is achieved through review and approval of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), etc;
- Templates of agreements used by Muzn are approved by SSB;
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core Muzn functions; staff has been provided training throughout the year on Sharia matters;

Disclosure of the nature, size and number of violations of Sharia compliance during the year:

There is no violation to SSB's Sharia ruling and AAOIFI Sharia standard have been found during the year.

Disclosure of annual Zakah contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat calculation and payment is the responsibility of the shareholders.

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

Social service and customer education

To promote the cause of Islamic Banking, Muzn Islamic Banking actively takes part in educating the public and customers about various aspects of Islamic Finance. During the year Muzn Islamic banking conducted more than 150 road shows across the country show casing various product and services offered by Muzn Islamic Banking. The Muzn team also took active part in various Islamic banking conferences and forums, engaging in healthy discussions regarding issues, developments and opportunities of Islamic banking and the ways in which the industry is helping the country in promoting financial inclusion, SME sector, trade and economic growth.

Muzn Islamic Banking as part of National Bank of Oman distributed food hampers to the poor and needy people in the holy month of Ramadan. A team of volunteers including the senior management team delivered several food hampers to low income families across the Muscat Governorate to inaugurate this initiative.

BASEL III – Transition Disclosure:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2020.

Basel III common disclosure template to be used during the transition of regulatory (RO '000)

	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	20,000
Retained earnings	1,040
Accumulated other comprehensive income (and other reserves)	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
Common Equity Tier 1 capital before regulatory adjustments	21,040
Common Equity Tier 1 capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
National specific regulatory adjustments	-
of which: Shortfall in MCR of Islamic Banking window and foreign branches of the bank	-
Total regulatory adjustments to Common equity Tier 1	-
Common Equity Tier 1 capital (CET1)	**21,040**
Additional Tier 1 capital: instruments - NIL	
Additional Tier 1 capital: regulatory adjustments	
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	21,040

BASEL II – PILLAR III AND BASEL III REPORT 2020

Basel III common disclosure template to be used during the transition of regulatory (RO '000)

TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier 2	-
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)	-
of which: instruments issued by subsidiaries subject to phase out	-
General Provisions	934
Tier 2 capital before regulatory adjustments	**934**
Tier 2 capital: regulatory adjustments	
National specific regulatory adjustments	
Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-basel iii treatment.	-
Of which: cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	**934**
Total capital (TC = T1 + T2)	**21,974**
Total risk weighted assets	**137,096**
Of which: Credit risk weighted assets	**127,720**
Of which: Market risk weighted assets	2,367
Of which: Operational risk weighted assets	7,009
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	15.35
Tier 1 (as a percentage of risk weighted assets)	15.35
Total capital (as a percentage of risk weighted assets)	16.03
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)	-
of which: capital conservation buffer requirement	-
of which: bank specific countercyclical buffer requirement	-
of which: D-SIB/G-SIB buffer requirement	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.25
National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.25
National total capital minimum ratio (if different from Basel 3 minimum)	12.25
TOTAL INVESTMENT ACCOUNT HOLDERS	
Amount of investment account holders funds	7,113
Profit equalization reserve	462
Investment risk reserve	183
TOTAL INVESTMENT ACCOUNT HOLDERS	**7,758**

BASEL II – PILLAR III AND BASEL III REPORT 2020

Prepared under the Guidelines on composition of capital disclosure requirements

Balance sheet as in published financial statements (RO '000)

	BALANCE SHEET AS IN PUBLISHED FINANCIAL STATEMENTS
Assets	31-Dec-20
Cash and balances with Central Bank of Oman	18,496
Certificates of deposit	-
Due from banks	5,232
Financing to banks	-
Financing to Customers	148,918
Investments	17,899
Property and equipment	530
Deferred tax assets	-
Other assets	1,578-
TOTAL ASSETS	**192,653**
Liabilities	
Due to banks	5,828
Customer deposits	160,165
Euro medium term notes	-
Other liabilities	5,015
Subordinated bonds	-
TOTAL LIABILITIES	**171,008**
Shareholders' Equity	
Paid-upshare capital	20,000
Share premium	-
Legal reserve	-
General reserve	-
Retained earnings	1,040
Other reserves	605
Cumulative changes in fair value of investments	-
Subordinated debt reserve	-
Tier 1 perpetual bond	-
TOTAL SHAREHOLDERS' EQUITY	**21,645**
TOTAL LIABILITY AND SHAREHOLDERS' FUNDS	**192,653**

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

Balance sheet as in published financial statements expanded (RO '000)

	BALANCE SHEET AS IN PUBLISHED FINANCIAL STATEMENTS	REFERENCE
Assets	31-Dec-20	
Cash and balances with Central Bank of Oman	18,496	
Certificates of deposit	-	
Balance with banks and money at call and short notice	5,232	
Investments	17,899	
Financing of which :		
Financing to banks - gross	-	
General provisions considered for tier 2	-	
Net financing to banks	-	
Financing to customers - gross	151,294	
Ecl stage 1	(698)	
Ecl stage 2	(511)	A1
Ecl stage 3	(1,167)	
Net financing to customers	**148,917**	
Fixed assets	530	
Other assets of which:	1,578	
Deferred tax assets	-	
Amount considered for CET1	-	
Current year allocation - not eligible	-	
TOTAL ASSETS	**192,653**	
Capital & Liabilities	-	
Paid-up Capital	-	
Of which:		
Amount eligible for CET1	20,000	C1
Amount eligible for AT1	-	
Reverses and Surplus	1,040	
Of which: Amount eligible for CET1	-	
Retained earnings carried forward	(775)	C2
Profit for current year not eligible	1,864	
Impairment reserve	(49)	
General reserve	-	
Subordinated debt reserve	-	
Proposed Stock Dividend	-	
TOTAL AMOUNT ELIGIBLE FOR CET1	-	
Tier 1 perpetual bond	-	
Proposed Cash Dividend	-	
Cumulative changes in fair value of investments	-	
Amount eligible for Tier 2	-	
Other reserve	605	
TOTAL CAPITAL	**21,645**	
Deposits Of which:		
Deposits from banks	5,828	
Customer deposits	160,165	
Euro medium term notes	-	
Other deposits (Sub-debt)	-	
Other liabilities & provisions Of which:	5,015	
TOTAL	**192,653**	

MUZN ISLAMIC BANKING ACTIVELY TAKES PART IN EDUCATING THE PUBLIC AND CUSTOMERS ABOUT VARIOUS ASPECTS OF ISLAMIC FINANCE. **MORE THAN 150 ROAD SHOWS WERE CONDUCTED SHOW CASING VARIOUS PRODUCT AND SERVICES OFFERED.**

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)

	COMPONENT OF REGULATORY CAPITAL REPORTED BY BANK	SOURCE BASED ON REFERENCE NUMBERS/ LETTERS OF THE BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION FROM STEP 2
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	20,000	C1
Retained earnings	1,040	C2
Accumulated other comprehensive income (and other reserves)	-	
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
Common Equity Tier 1 capital before regulatory adjustments	**21,040**	
Common Equity Tier 1 capital: regulatory adjustments		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Total regulatory adjustments to Common equity Tier 1	**-**	
Common Equity Tier 1 capital (CET1)	**21,040**	
Additional Tier 1 capital: instruments (TIER1 PERPETUAL BOND)	**-**	
Additional Tier 1 capital: regulatory adjustments - Nil		
Tier 1 capital (T1 = CET1 + AT1)	**21,040**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier 2	-	
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)	-	
of which: instruments issued by subsidiaries subject to phase out	-	

BASEL II – **PILLAR III AND BASEL III REPORT 2020**

	COMPONENT OF REGULATORY CAPITAL REPORTED BY BANK	SOURCE BASED ON REFERENCE NUMBERS/ LETTERS OF THE BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION FROM STEP 2
General provisions	934	A1
Cumulative fair value gains or losses on available for sale instruments	-	
Tier 2 capital before regulatory adjustments	**934**	
Tier 2 capital: regulatory adjustments	-	
National specific regulatory adjustments	-	
Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-Basel III treatment.	-	
Of which: Cumulative fair value gains or losses on available for sale instruments	-	
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	**934**	
TOTAL CAPITAL (TC = T1 + T2)	**21,974**	

Disclosure template for main features of all regulatory capital instrumentss

1. **Common Equity.**
   Common equity comprises of assigned capital amounting to RO 20,000,000 transferred from National Bank of Oman SAOG.
2. **All other regulatory capital instruments - Nil**
   This report on Basel II & III disclosures set out from pages no 1 to 28 was authorized for issue on 27th January 2021.

Amal Suhail Bahwan
Chairperson

FINANCIAL **STATEMENT**

KPMG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Muzn Islamic Banking (the "Islamic window") set out on page 3 to 52, which comprise the statement of financial position as at 31 December 2020, the statements of income, changes in equity, cash flows, and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Islamic window as at 31 December 2020, and results of its operations, changes in owners' equity, its cash flows, and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman (the "CBO").

In our opinion, the Islamic window has also complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Islamic window during the year ended 31 December 2020.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Islamic window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Islamic window for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 9 March 2020.

KPMG

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the Islamic window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles as determined by the Islamic window's Shari'a Supervisory Board.

The Board of Directors is also responsible for the preparation and fair presentation of the financial statements in accordance with FAS as modified by CBO, and for such internal control as the Board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

KPMG

Auditors' responsibilities for the audit of the financial statements *(continued)*

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

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

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

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

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

16 March 2021

KPMG
KPMG LLC

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

CR No. 1358131
Tax Card No. 8063052

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

		2020	2019
ASSETS	NOTES	RO'000	RO'000
Cash and balances with Central Bank of Oman	5	**18,496**	10,754
Due from banks and financial institutions	6	**5,232**	443
Financial assets at amortised cost	7	**17,899**	11,934
Deferred sales under Murabaha	8	**2,823**	2,215
Ijarah Muntahia Bittamleek - net	9	**71,659**	77,946
Diminishing Musharaka	10	**74,414**	56,208
Forward Ijarah	11	**-**	4,080
Service Ijarah	12	**22**	27
Property and equipment - net	13	**530**	329
Other assets	14	**1,578**	490
TOTAL ASSETS		**192,653**	**164,426**
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		**10,087**	7,357
Wakala accounts	15	**142,320**	121,122
Due to banks and financial institutions	16	**5,828**	5,786
Other liabilities	17	**5,015**	4,000
TOTAL LIABILITIES		**163,250**	138,265
Equity of unrestricted investment accountholders	19	**7,758**	6,378
OWNERS' EQUITY			
Assigned capital	20	**20,000**	20,000
Impairment reserve		**605**	558
Accumulated profits/(losses)		**1,040**	(775
TOTAL OWNERS' EQUITY		**21,645**	19,783
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**192,653**	164,426

The financial statements were approved by the Board of Directors on 26 January 2021.

Chairperson

Acting Chief Executive Officer

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
INCOME	NOTES	RO '000	RO '000
Deferred sales under Murabaha	21	**127**	102
Ijarah Muntahia Bittamleek	22	**4,250**	4,163
Diminishing Musharaka	23	**4,020**	2,454
Inter-bank Wakala		**84**	111
Investment income		**693**	405
Income from jointly financed assets		**9,174**	7,235
Less:			
Return on unrestricted investment accountholders	24	**(33)**	(35)
Return on Wakala accountholders	25	**(4,839)**	(3,863)
Return on Inter-bank Wakala Acceptence		**(53)**	(277)
Profit equalisation reserve		**(81)**	(71)
Investment risk reserve		**(35)**	(31)
		(5,041)	(4,277)
MUZN'S SHARE IN INCOME FROM INVESTMENT AS MUDARIB AND RABUL MAAL		**4,133**	2,959
Revenue from banking services		**298**	741
Foreign exchange gains – net		**102**	102
TOTAL OPERATING REVENUE		**4,533**	3,802
General and administrative expenses	26	**(1,645)**	(1,918)
Provisions for credit loss	18	**(768)**	(206)
Recoveries and release from provions of credit loss	18	**23**	-
Depreciation	13	**(279)**	(164)
TOTAL OPERATING EXPENSES		**(2,669)**	(2,288)
PROFIT FOR THE YEAR		**1,864**	1,514

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	SHARE CAPITAL	IMPAIRMENT RESERVE	ACCUMULATED LOSSES	TOTAL
	RO'000	RO'000	RO'000	RO'000
BALANCE AT 1 JANUARY 2020	20,000	558	(775)	**19,783**
Net Profit for the year	-	-	1,864	**1,864**
Additional Capital		-	-	-
Transfer to impairment reserve	-	47	(47)	-
BALANCE AT 31 DECEMBER 2020	**20,000**	**605**	**1,042**	**21,647**
BALANCE AT 1 JANUARY 2019	13,500	-	(1,731)	11,769
Net profit for the year	-	-	1,514	1,514
Restated opening balance under IFRS 9	6,500	-	-	6,500
Transfer to impairment reserve	-	558	(558)	-
BALANCE AT 31 DECEMBER 2019	20,000	558	(775)	19,783

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
OPERATING ACTIVITIES	RO '000	RO '000
Net profit for the year	**1,864**	1,514
Adjustments for:		
Depreciation	**279**	164
Provisions for credit loss	**768**	206
Recoveries and release from provisions of credit loss	**(23)**	-
Profit equalisation reserve	**81**	71
Investment risk reserve	**35**	31
OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**3,004**	1,986
Changes in operating assets and liabilities:		
Deferred sales under Murabaha	**(608)**	(649)
Ijarah Muntahia Bittamleek assets	**6,585**	6,328
Diminishing Musharaka assets	**(19,287)**	(30,407)
Forward Ijarah assets	**4,094**	626
Service Ijarah assets	**4**	(15)
Other assets	**(1,088)**	(148)
Customers' current accounts	**2,730**	1,412
Customers' Wakala accounts	**21,198**	17,606
Other liabilities	**1,015**	(641)
Net cash flows generated from /(used in) operating activities	**17,647**	(3,903)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(481)**	(72)
Investment in financial assets at amortised cost	**(5,941)**	(3,686)
Net cash used in investing activities	**(6,422)**	(3,758)
FINANCING ACTIVITIES		
Movement in unrestricted investment accountholders	**1,264**	1,077
Assigned capital	-	6,500
Net cash from financing activities	**1,264**	7,577
Increase in cash and cash equivalents	**12,489**	(84
Cash and cash equivalents at the beginning of the year	**5,411**	5,495
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**17,900**	5,411
REPRESENTING:		
Cash and balances with Central Banks	**18,496**	10,754
Due from banks and financial institutions	**5,232**	443
Due to banks and financial institutions	**(5,828)**	(5,786)
	17,900	5,411

STATEMENT OF SOURCES AND USES OF CHARITY FUND
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	RO	RO
Balance as at 1 January	-	
Non-Islamic income for the year	**2,493**	4,146
TOTAL SOURCE	**2,493**	4,146
Use of charity fund:		
Oman Association for disabled	-	-
Oman Society for the hearing impaired	-	-
Omani Association for Elderly Friends	-	-
Association for Welfare of Children Disabilities	-	(2,073)
Omani Association for Down syndrome	-	(2,073)
Ihsaan Association	**(1,246)**	-
Omani Bahja Orphan Society	**(1,246)**	-
Undistributed charity fund	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in the Sultanate of Oman as a window of National Bank of Oman SAOG. Muzn's principle place of business is in Muscat, Sultanate of Oman.

Muzn's operations commenced on 17 January 2013 and it currently operates through six branches in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

The principle activities of Muzn are taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing, Musharaka financing and other Sharia compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Sharia Supervisory Board ('SSB') comprising of five members.

Muzn's address is PO Box 751 and PC 112, Muscat, Sultanate of Oman.

Muzn employed 68 employees as at 31 December 2020 (2019: 59).

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of Muzn and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), as adopted by CBO and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, Muzn uses guidance from the relevant International Financial Reporting Standards ("IFRS"). Thus subject to preparation of the financial statements in accordance with FAS issued by AAOIFI, the financial statements comply with the relevant disclosure requirements of the Commercial Companies Law of 2019 and Capital Market Authority of the Sultanate of Oman.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law has come into force on 17 April 2019 and Muzn is in compliance with the new law.

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable/relevant to Muzn's operations.

2.2 BASIS OF MEASUREMENT

The financial statements are prepared on historical cost basis except for the measurement at fair value of certain instrument(s) carried at fair value.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements have been presented in Rial Omani (RO) which is the functional currency of Muzn. Except as otherwise indicated, financial information presented has been rounded off to the nearest thousand Rial Omani (RO).

2.4 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Muzn's financial statements to the period presented.

3.1 FOREIGN CURRENCY TRANSLATIONS

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

3.2 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman and, amounts due from other banks.

3.3 OFFSETTING

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Further, this should also be as per the Sharia principles and guidelines.

Income and expenses are presented on a net basis only for permitted transaction.

3.4 DEFERRED SALES UNDER MURABAHA

Deferred sales under Murabaha are stated net of deferred profits and provisions for impairment. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory.

Muzn has adopted FAS 28 which is effective on the financial statements on or after 1 January 2020.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements except for additional disclosure that has been added in the relevant section (note 8).

3.5 IJARAH MUNTAHIA BITTAMLEEK ASSETS AND FORWARD IJARAH

IjIjarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life.

Forward Ijarah assets are recognised as assets at cost during the period of construction.

3.6 DIMINISHING MUSHARAKA

Musharaka contract represents a partnership between Muzn and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Muzn enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house or land) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Muzn's Musharaka share by the customer.

Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.7 SERVICE IJARAH

Deferred Contracts under Service Ijarah are stated net of deferred profits and provisions for impairment. Muzn considers the payments to be made under Deferred Service Ijarah Contracts as obligatory.

3.8 PROPERTY AND EQUIPMENT

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

NATURE OF ASSETS	USEFUL LIFE IN YEARS
Furniture and fixtures	10
Equipment	5-20
Motor vehicles	4
Leasehold improvements	3-10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable

amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to income statement when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in income statement as an expense when incurred.

3.9 UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

All unrestricted investment accounts will be carried at cost plus profit attributable to unrestricted investment account holders and related reserves, less amounts settled.

Unrestricted investment account holders' share of income will be calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses will be charged to shareholders' funds and not included in the calculation.

The basis applied by Muzn in arriving at the unrestricted investment account holders' share of income will be (total income from jointly financed Islamic finances less shareholders' income). Pre agreed profit share generated from unrestricted investment account holders will be deducted as Mudarib share and the remaining will be distributed to the unrestricted investment account holders.

3.10 INVESTMENTS

Investments comprise of debt type instruments carried at amortised cost, equity type instruments carried at fair value through equity and equity type instruments carried at fair value through statement of income.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investments carried at fair value through statement of income.

Debt instruments at FVTE (IFRS 9: FVOCI)

The Window applies the new category under IFRS 9 of debt instruments measured at FVTE when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

For debt securities measured at FVTE, gains and losses are recognised in equity and upon sale realized through Profit and Loss.

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in fair value reserve is reclassified from equity to profit or loss.

Equity instruments at FVTE (IFRS 9:FVOCI)

Upon initial recognition, the Window occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVTE when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.10 INVESTMENTS (CONTINUED)

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Window benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in equity. Equity instruments at FVOCI are not subject to an impairment assessment.

3.11 INVESTMENT RISK RESERVE

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib share, in order to cater against future losses for unrestricted investment account holders.

3.12 PROFIT EQUALISATION RESERVE

Muzn appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

3.13 PROVISIONS

Provisions are recognised when Muzn has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

According to the regulations of the Central Bank of Oman; Banks are required to have portfolio credit loss provisions, at least equivalent to 1% of the total financing and interbank 0.5% categorized as Standard and Special Mention. However, for personal finance a minimum portfolio loss provision of 2% of the Standard and Special Mention is required to address the heightened inherent risk. This is required for comparison purpose against the IFRS 9 expected credit loss which shown under note 18.2.

3.14 DIVIDENDS

Dividends are recognised as a liability in the year in which they are declared.

3.15 EARNINGS PROHIBITED BY SHARI'A

Muzn is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where Muzn disburses these funds according to the Sharia Supervisory Board's supervision and instructions.

3.16 ZAKAH

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.17 JOINT AND SELF-FINANCED

Financing and receivables that are jointly owned by Muzn and the unrestricted investment accounts holders will be classified under the caption "jointly-financed" in the financial statements. Financing and receivables that are financed solely by Muzn will be classified under "self-financed".

3.18 FUNDS FOR MUZN

Muzn functions with funds specifically available for its Islamic banking activities and there is no commingling of funds with conventional banking business.

3.19 REVENUE RECOGNITION

3.19.1 Deferred sales under Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually

3.19 Revenue recognition

Determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the income statement.

3.19.2 Diminishing Musharaka

Income from Musharaka is recognised when the right to receive payment is established or when distribution is made.

3.19.3 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek will be recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non performing Ijarah Muntahia Bittamleek assets will be excluded from the statement of income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.19 REVENUE RECOGNITION *(CONTINUED)*

3.19.4 Service Ijarah

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the income statement.

3.19.5 Dividends

Dividends will be recognised when the right to receive payment is established.

3.19.6 Fee and Commission Income

Fee and commission income will be recognised when earned.

3.19.5 Dividends

Dividends will be recognised when the right to receive payment is established.

3.19.6 Fee and Commission Income

Fee and commission income will be recognised when earned.

3.19.7 Muzn's Share as a Mudarib

Muzn's share as a Mudarib for managing unrestricted investment accounts will be accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.8 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

3.20 TAXATION

Muzn is not a separate legal entity and therefore is not taxable on a stand-alone basis as per the prevailing tax laws.

National Bank of Oman SAOG is taxable on a consolidated basis i.e including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.21 EMPLOYEE BENEFITS

End of service benefits are accrued in accordance with the terms of employment of the Muzn's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date.

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

3.22 SEGMENT REPORTING

An operating segment is a component of Muzn that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Muzn's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and asses its performance and for which discrete financial information is available. Muzn's primary format for reporting segmental information is business segment, based upon management internal reporting structure. Muzn's main business segments comprise of retail, corporate and treasury operations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.23 SHARIA SUPERVISORY BOARD

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of Muzn, which meets four times a year and consists of three prominent Sharia scholars as voting members and two non-voting members who are expert in the field. The SSB members appointed for a period of three years are:

- Sh. Dr. Mohamed Bin Ali Elgari - Chairman
- Dr. Mohammed Daud Bakar - Member
- H.H. Sh. Dr. Adham Al Said - Member
- Sh. Saleh Al Kharusi – Member

3.24 IFRS 9 - FINANCIAL INSTRUMENTS

3.24.1 Classification of financial assets

The Window has applied IFRS 9 and classifies its financial assets in the following measurement categories:

a. Fair value through equity (FVTE) which is IFRS 9: FVOCI; or
b. Amortized cost.
c. Fair value through profit or loss (FVTPL);

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

a. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit

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

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

On initial recognition of an equity investment that is not held for trading, the Window may irrevocably elect to present subsequent changes in fair value in equity. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

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

3.24.2 Business model assessment

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 IFRS 9 - FINANCIAL INSTRUMENTS *(CONTINUED)*

3.24.2 Business model assessment (continued)

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

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

3.24.3 Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP')

IIn assessing whether the contractual cash flows are solely payments of principal and profit, the Window considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Window considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Window's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify the profit rates based on the given circumstances.

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

The 'investments' caption in the statement of financial position includes:

a. Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;

b. Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;

c. Debt securities measured at FVTE; and

d. Equity investment securities designated as at FVTE.

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

a. Profits from the financial assets

b. ECL and reversals; and

c. Foreign exchange gains and losses.

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in equity is reclassified from equity to profit or loss.

The Window elects to present in equity changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

3.24.4 Reclassifications

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 IFRS 9 - FINANCIAL INSTRUMENTS *(CONTINUED)*

3.24.5 Impairment

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

a. Financial assets that are debt instruments;

b. Financial guarantee contracts issued; and

c. Financing commitments issued.

No impairment loss is recognised on equity investments. The Window measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

a. Debt investment securities that are determined to have low credit risk at the reporting date; and

b. Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Credit-impaired financial assets

At each reporting date, the Window assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTE are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

a. Significant financial difficulty of the borrower or issuer;

b. A breach of contract such as a default or past due event;

c. The restructuring of a financing or advance by the Window on the terms that the Window would not consider otherwise;

d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e. The disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Window considers the following factors

a. The market's assessment of creditworthiness as reflected in the Sukuk yields.

b. The rating agencies' assessments of creditworthiness.

c. The country's ability to access the capital markets for new debt issuance.

d. The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

e. The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Calculation of expected credit loss (ECL)

Changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2020 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Window while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 IFRS 9 - FINANCIAL INSTRUMENTS *(CONTINUED)*

3.24.5 Impairment (continued)

The Window compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Window's existing risk management processes.

The Window's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

The Window will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;

b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement

c. Non-cooperation by the counterparty in matter pertaining to documentation

d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position

e. Frequent changes in senior management

f. Intra-group transfer of funds without underlying transactions

g. Deferment/delay in the date for commencement of commercial operations by more than one year

h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.

i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year

j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.

k. A fall in the debt service ratio

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

The windows base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results.

Scenarios are probability-weighted according to the window best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 IFRS 9 - FINANCIAL INSTRUMENTS *(CONTINUED)*

3.24.5 Impairment (continued)

IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Window considers any exposure greater than 90 days past due as a default account.

Expected life

When measuring ECL, the Window must consider the maximum contractual period over which the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Window is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Window's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

Stage 1

When financing are first recognised, the Window recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

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

Stage 3

Financing exposure considered credit-impaired. The Window records an allowance for the LTECLs.

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

Stage 1

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

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset.

Stage 3

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 IFRS 9 - FINANCIAL INSTRUMENTS *(CONTINUED)*

3.24.5 Impairment (continued)

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Window has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Window calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the window would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Window has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as investments under amortised cost.

3.25 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

3.25.1 New standards, amendments and interpretations effective from 1 January 2020

For the year ended 31 December 2020, the Window has adopted all of the amendments in standards issued by AAOIFI that are relevant to tis operations and effective for the period beginning on 1 January 2020.

3.25.2 New standards, amendments and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued by AAOIFI, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

FAS 30 Impairment, Credit losses and onerous commitments

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments. This standard shall be effective for the financial periods beginning on or after 1 January 2020, with early adoption permitted.

However, during the year 2017, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply to Islamic banks/ windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

In accordance with the standard, which if required by CBO, the Bank will implement AAOIFI FAS 30 with effect from 1 January 2020. The Bank is currently evaluating the impact of this standard.

FAS 32 Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.25 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS *(CONTINUED)*

3.25.1 New standards, amendments and interpretations effective from 1 January 2020 (continued)

The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions as a lessor and lessee.

This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The window is currently evaluating the impact of this standard.

FAS 33 Investment in Sukuk, Shares and Similar Instruments

AAOIFI has issued FAS 33 "Investment in Sukuk, Shares and Similar Instruments" in 2018. This standard supersedes the earlier FAS 25 "Investment in Sukuk, Shares and Similar Instruments". The objective of this standard is to establish the principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments made by the Bank. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The window is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves.

established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments". The window is currently evaluating the impact of this standard.

FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 "Wa'ad, Khiyar and Tahawwut" in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosure in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. Wa'ad and Khiyar are used by institutions in various forms. Some are ancillary to other transactions, whereas a few are used as primary products. This standard intends to provide accounting principles for both of these, as well as the Tahawwut transactions which are normally based on Wa'ad or Khiyar, or a series or combination thereof. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The window is currently evaluating the impact of this standard.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 FINANCIAL INSTRUMENTS

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2020 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

4.1 FINANCIAL INSTRUMENTS *(CONTINUED)*

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the window while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

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

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

4.2 USEFUL LIFE OF PROPERTY AND EQUIPMENT

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5. CASH AND BALANCES WITH CENTRAL BANK OF OMAN ("CBO")

	2020	2019
	RO'000	RO'000
Cash in hand	1,109	1,178
Balances with Central Bank of Oman ("CBO")	17,387	9,576
Cash and balances with Central bank of Oman ("CBO")	18,496	10,754

All the above exposures are classified as Stage 1 as at 31 December 2020.

ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by Muzn.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

6. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	TOTAL 2020	TOTAL 2019
	RO'000	RO'000
Due from foreign banks (note a)	1,910	52
Due from local banks (note b)	3,000	-
Due from banks and financial institutions	322	391
TOTAL	**5,232**	443

a. Due from foreign banks is from a international bank with Aa1 rating with a current maturity, due to which the computed ECL is insignificant amount.

b. Due from local banks is from a local bank with Ba3 rating with current maturity, due to which the computed ECL is insignificant amount.

7. FINANCIAL ASSETS

7.1 FINANCIAL ASSETS AT AMORTIZED COST

	TOTAL 2020	TOTAL 2019
	RO'000	RO'000
Government sukuk	16,417	10,476
Manufacturing sector sukuk	963	963
Banking sector sukuk	550	550
Financial assets at amortised cost	17,930	11,989
Less: Allowance for credit losses (refer 7.2)	(31)	(55)
Financial assets at amortised cost after adopting IFRS9	**17,899**	11,934

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

7. FINANCIAL ASSETS *(CONTINUED)*

7.2 MOVEMENT IN ALLOWANCES FOR THE CREDIT LOSSES IS SET OUT BELOW:

	2020	2019
	RO'000	RO'000
Balance at 1 January	55	55
Released/provided during the year	(24)	-
Balance at 31 December	**31**	55

8. DEFERRED SALES UNDER MURABAHA

	TOTAL 2020	TOTAL 2019
	RO'000	RO'000
Gross deferred sales under Murabaha	3,143	2,479
Less: Unearned income	(310)	(254)
	2,833	2,225
Less: Allowances for credit losses	(10)	(10)
Deferred sales under Murabaha	**2,823**	2,215

The deferred sales under Murabaha pertain to finance provided to retail customers. The credit quality of the deferred sales under Murabaha that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

FAS 28 - Murabaha and Other Deferred Payment Sales Disclosure

	2020	2019
	RO'000	RO'000
Deferred profit at the beginning of the period	254	145
Murabaha sales revenue during the period	1,679	1,537
Murabaha cost of sales	(1,623)	(1,428)
	310	254
Deferred profit written off during the period	-	-
Deferred profit waived during the period	-	-
Deferred profit at the end of the period	**310**	254

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

9. IJARAH MUNTAHIA BITTAMLEEK – NET

	2020	2019
	RO'000	RO'000
COST		
At 1 January 2019	123,724	121,067
Additions - net	(596)	2,657
At 31 December 2019	123,128	123,724
DEPRECIATION		
At 1 January	(44,709)	(35,775)
Additions – net	(5,911)	(8,934)
At 31 December	(50,620)	(44,709)
Net book value at 31 December 2020	72,508	79,015
Less: Allowances for credit losses	(849)	(1,069)
Ijarah Muntahiah Bittamleek – net	**71,659**	77,946

The Ijarah Muntahia Bittamleek pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah Muntahia Bittamleek that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

10. DIMINISHING MUSHARAKA

	TOTAL 2020	TOTAL 2019
	RO'000	RO'000
Diminishing Musharaka receivables	75,928	56,641
Less: Allowances for credit losses	(1,514)	(434)
TOTAL	**74,414**	56,208

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11. FORWARD IJARAH

	TOTAL 2020	TOTAL 2019
	RO'000	RO'000
Forward Ijarah receivables	-	4,094
Less: Allowances for credit losses	-	(15)
TOTAL	-	4,080

Forward Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Forward Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

12. SERVICE IJARAH

	TOTAL 2020	TOTAL 2019
	RO'000	RO'000
Gross deferred Service Ijarah	22	27
Less: Unearned income	-	-
	22	27
Less: Allowances for credit losses	-	-
Service Ijarah	**22**	27

13. PROPERTY AND EQUIPMENT – NET

	MOTOR VEHICLES, FURNITURE AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	RTU ASSET	TOTAL
	RO'000	RO'000	RO'000	RO'000
COST				
1 January 2020	1,342	473	-	1,815
Additions	40	100	341	481
Disposals	(64)	(0)	(11)	(75)
31 December 2020	1,318	573	330	2,221
DEPRECIATION				
1 January 2020	1,013	475	-	1,487
Charge for the year	135	18	126	279
Disposals	(64)	-	(11)	(75)
31 December 2020	1,084	493	115	1,691
Net book value at 31 December 2020	**236**	**80**	**215**	**530**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

13. PROPERTY AND EQUIPMENT – NET *(CONTINUED)*

	MOTOR VEHICLES, FURNITURE AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
	RO'000	RO'000	RO'000
COST			
1 January 2019	1,282	701	1,983
Additions	73	5	78
Disposals	(13)	(232)	(245)
31 December 2019	1,342	474	1816
DEPRECIATION			
1 January 2019	879	684	1,563
Charge for the year	142	22	164
Disposals	(8)	(232)	(240)
31 December 2019	1,013	474	1,487
Net book value at 31 December 2019	**329**	**-**	**329**

14. OTHER ASSETS

	2020	2019
	RO'000	RO'000
Profit receivable	1,336	206
Advanced rent	5	108
Miscellaneous assets	237	176
TOTAL	**1,578**	490

15. WAKALA ACCOUNTS

	2020	2019
	RO'000	RO'000
Wakala deposit	53,971	49,715
Flex Wakala	88,349	71,407
TOTAL	**142,320**	121,122

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2020	2019
	RO'000	RO'000
Due to Head office	48	1,934
Due to foreign banks	5,780	3,852
TOTAL	**5,828**	5,786

17. OTHER LIABILITIES

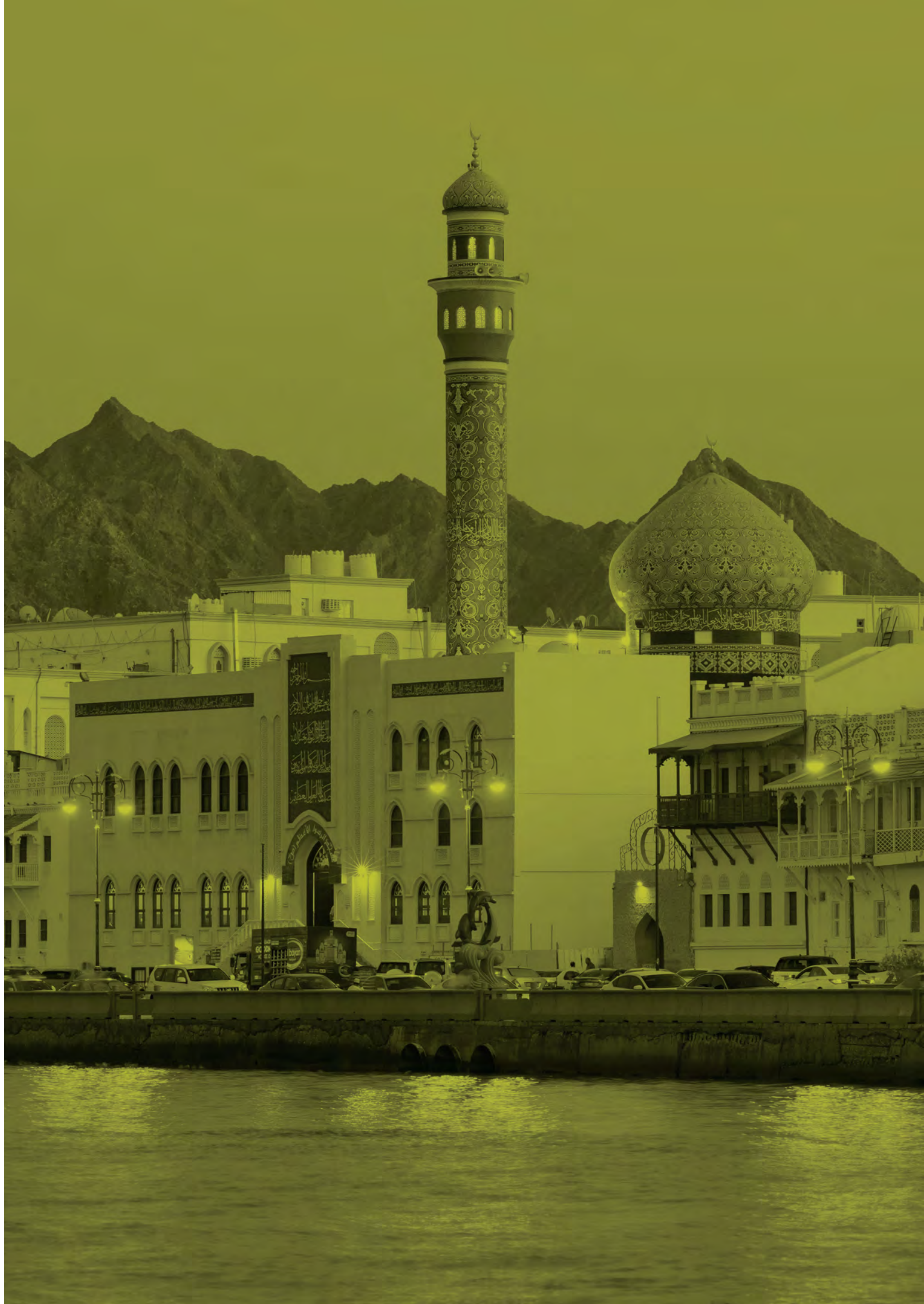
	2020	2019
	RO'000	RO'000
Sundry creditors	534	294
Short term payable	32	242
Profits payable	2,347	1,828
Forward Ijarah advances	1,786	1,383
Deferred profit under Murabaha	316	253
	5,015	4,000

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES

18.1 PORTFOLIO PROVISION

	2020	2019
	RO'000	RO'000
At 1 January	1,582	1,324
Impact of adopting IFRS9	-	-
Restated opening balance under IFRS9	1,582	1,324
Provided during the year	849	258
Released during the year	(23)	-
At 31 December	**2,408**	1,582

Provided during the period includes contractual profit reserved for RO 81,000 (December 2019: RO 52,000).



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES *(CONTINUED)*

18.2 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO GUIDELINES 2020

ASSET CLASSIFICATION AS PER CBO NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS AMOUNT	PROVISION REQUIRED AS PER CBO NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD	NET AMOUNT AS PER CBO NORMS*	NET AMOUNT AS PER IFRS 9	PROFIT RECOGNISED IN P&L AS PER IFRS 9	RESERVE PROFIT AS PER CBO NORMS
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = (4)-(5)-(10)**	**(7)=(3)-(4)-(10)**	**(8) = (3)-(5)**	**(9)**	**(10)**
Standard	Stage 1	111,624	1,187	698	489	**110,436**	110,962	-	-
	Stage 2	31,401	324	462	(138)	31,077	30,939	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**143,025**	**1,512**	**1,160**	**351**	**141,514**	**141,865**	-	-
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	5,526	55	49	7	5,471	5,478	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**5,526**	**55**	**49**	**7**	**5,471**	**5,478**	-	
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		-	-	-	-	-	-	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		-	-	-	-	-	-	-	-
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,742	1,284	1,167	385	1,189	1,575	-	269
SUBTOTAL		**2,742**	**1,284**	**1,167**	**385**	**1,189**	**1,575**	-	**269**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	20,930	-	31	(31)	20,930	20,930	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**20,930**	-	**31**	**(31)**	**20,930**	**20,930**	-	-
	STAGE 1	**132,554**	**1,187**	**729**	**458**	**131,367**	**131,825**	-	-
	STAGE 2	**36,927**	**379**	**511**	**(132)**	**36,548**	**36,416**	-	-
	STAGE 3	**2,742**	**1,284**	**1,167**	**386**	**1,189**	**1,575**	-	**269**
TOTAL	**TOTAL**	**172,223**	**2,850**	**2,407**	**712**	**169,104**	**169,816**	-	**269**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES *(CONTINUED)*

18.3 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO GUIDELINES AS AT 31 DECEMBER 2020.

Restructured Financing — Amounts in RO'000

ASSET CLASSIFICATION AS PER CBO'S NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS CARRYING AMOUNT	PROVISION REQUIRED AS PER CBO'S NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD UNDER IFRS 9	NET CARRYING AMOUNT AS PER IFRS 9	RESERVE INTEREST AS PER CBO'S NORMS
-1	-2	-3	-4	-5	(6) = (4)-(5)+(8)	(7) = (3)-(5)	-8
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	2,099	21	10	11	2,089	-
	Stage 3	-		-		-	-
Subtotal		2,099	21	10	11	2,089	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Sub total		-	-	-	-	-	-
TOTAL	Stage 1	-	-	-	-	-	-
	Stage 2	**2,099**	**21**	**10**	**11**	**2,089**	-
	Stage 3	-	-	-	-	-	-
	TOTAL	**2,099**	**21**	**10**	**11**	**2,089**	-

18.4 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2020

	STAGE 1 RO'000	STAGE 2 RO'000	STAGE 3 RO'000	TOTAL RO'000
EXPOSURE SUBJECT TO ECL				
• Financing contracts with customers	111,624	36,927	2,743	**151,294**
• Investment securities at amortised cost	17,930	-	-	**17,930**
• Unutilized portion of financing contracts and Financial Guarantees	1,048	-	-	**1,048**
• Due from banks, Central Bank and Other Financial Assets	322	-	-	**322**
OPENING BALANCE AS AT 1 JANUARY 2020				
• Financing contracts with customers	282	561	683	**1,526**
• Investment securities at amortised cost	55	-	-	**55**
• Financing Commitments and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	337	561	683	**1,581**

MUZN ISLAMIC BANKING

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18.4 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2020 *(CONTINUED)*

	STAGE 1 RO'000	STAGE 2 RO'000	STAGE 3 RO'000	TOTAL RO'000
NET TRANSFER BETWEEN STAGES				
• Financing contracts with customers	48	(836)	788	-
• Investment securities at amortised cost	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
CHARGE FOR THE PERIOD (NET)				
• Financing contracts with customers (including contractual profit reserved of RO 269 K)	368	785	(304)	**849**
• Investment securities at amortised cost	(22)	-	-	**(22)**
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	346	785	(304)	**827**
CLOSING BALANCE - AS AT 31 DECEMBER 2020				
• Financing contracts with customers	**698**	**510**	**1,167**	**2,375**
• Financial Assets at amortised cost	33	-	-	**33**
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	731	**510**	**1,167**	**2,408**

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES *(CONTINUED)*

18.4 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2020 *(CONTINUED)*

Impairment charge and provisions held as at 31 December 2020

(RO '000)

	AS PER CBO NORMS	AS PER IFRS 9	DIFFERENCE
Impairment loss charged to profit and loss account	(745)	(745)	-
Provisions required as per CBO norms/held as per IFRS 9*	3,120	2,408	**(712)**
Gross NPF ratio	1.99	1.99	-
Net NPF ratio	1.82	1.82	-

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under IFRS 9, has been transferred to a financing loss impairment reserve from accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES *(CONTINUED)*

18.2 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO GUIDELINES AS AT 31 DECEMBER 2019

ASSET CLASSIFICATION AS PER CBO NORMS	ASSET CLASSIFICATION AS PER IFRS 9	GROSS AMOUNT	PROVISION REQUIRED AS PER CBO NORMS	PROVISION HELD AS PER IFRS 9	DIFFERENCE BETWEEN CBO PROVISION REQUIRED AND PROVISION HELD	NET AMOUNT AS PER CBO NORMS*	NET AMOUNT AS PER IFRS 9	PROFIT RECOGNISED IN P&L AS PER IFRS 9	RESERVE PROFIT AS PER CBO NORMS
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = (4)-(5)-(10)**	**(7)=(3)-(4)-(10)**	**(8) = (3)-(5)**	**(9)**	**(10)**
Standard	Stage 1	103,824	1,082	282	800	102,742	103,542	-	-
	Stage 2	23,856	241	257	(16)	23,615	23,599	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**127,680**	**1,323**	**539**	**784**	**126,357**	**127,141**	-	-
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	12,106	121	304	(183)	11,985	11,802		
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**12,106**	**121**	**304**	**(183)**	**11,985**	**11,802**	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		-	-	-	-	-	-	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,331	315	215	164	952	1,116	-	64
SUBTOTAL		**1,331**	**315**	**215**	**164**	**952**	**1,116**	-	**64**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	885	190	468	(152)	569	417	-	126
SUBTOTAL		**885**	**190**	**468**	**(152)**	**569**	**417**	-	**126**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	12,432	-	55	(55)	12,432	12,377	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**12,432**	-	**55**	**(55)**	**12,042**	**12,377**	-	-
	STAGE 1	**116,256**	**1,082**	**337**	**745**	**115,174**	**115,919**	-	-
	STAGE 2	**35,962**	**362**	**561**	**(199)**	**35,600**	**35,401**	-	-
	STAGE 3	**2,216**	**505**	**683**	**12**	**1,520**	**1,532**	-	**190**
TOTAL	**TOTAL**	**154,434**	**1,949**	**1,581**	**558**	**152,294**	**152,852**	-	**190**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES *(CONTINUED)*

18.3 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2019

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	RO'000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
• Financing contracts with customers	103,824	35,962	2,216	**142,002**
• Investment securities at amortised cost	11,989	-	-	**11,989**
• Unutilized portion of financing contracts and Financial Guarantees	3,973	-	-	**3,973**
• Due from banks, Central Bank and Other Financial Assets	391	-	-	**391**
OPENING BALANCE AS AT 1 JANUARY 2020				
• Financing contracts with customers	294	306	669	**1,269**
• Investment securities at amortised cost	55	-	-	**55**
• Financing Commitments and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	349	306	669	**1,324**
NET TRANSFER BETWEEN STAGES				
• Financing contracts with customers	62	(66)	5	-
• Investment securities at amortised cost	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
CHARGE FOR THE PERIOD (NET)				
• Financing contracts with customers (including contractual profit reserved of RO 269 K)	(73)	321	10	**257**
• Investment securities at amortised cost	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	(73)	321	10	**257**
CLOSING BALANCE - AS AT 31 DECEMBER 2020				
• Financing contracts with customers	**282**	**561**	**683**	**1,526**
• Financial Assets at amortised cost	55	-	-	**55**
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	337	**561**	**683**	**1,581**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. PROVISIONS FOR CREDIT LOSS FINANCES AND RECOVERIES AND RELEASE FROM PROVISIONS OF CREDIT LOSS FINANCES *(CONTINUED)*

18.3 MOVEMENT IN EXPECTED CREDIT LOSSES (ECL) AS AT 31 DECEMBER 2019 *(CONTINUED)*

Impairment charge and provisions held as at 31 December 2020

(RO '000)

	AS PER CBO NORMS	AS PER IFRS 9	DIFFERENCE
Impairment loss charged to profit and loss account	206	206	-
Provisions required as per CBO norms/held as per IFRS 9*	2,139	1,581	**(558)**
Gross NPF ratio	1.31	1.31	-
Net NPF ratio	1.00	1.00	-

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under IFRS 9, has been transferred to a financing loss impairment reserve from accumulated losses.

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2020	2019
	RO'000	RO'000
Mudaraba savings account	7,113	5,849
Profit equalisation reserve	462	381
Investment risk reserve	183	148
TOTAL UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	**7,758**	6,378

There are no restricted investment as at 31 December 2020 (2019: Nil).

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year ended 31 December 2020 and year ended December 2019 as follows:

	2020	2019
	Percentage	Percentage
Unrestricted investment accountholders share	**40%**	40%
Mudarib share	**60%**	60%

The investment risk reserve at 0.5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve at 1 percent is the amount Muzn appropriates in excess of the profit to be distributed to unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

20. ASSIGNED CAPITAL

The assigned capital consists of RO 20,000,000 transferred from National Bank of Oman SAOG (31 December 2019: RO 20,00,000).

21. DEFERRED SALES UNDER MURABAHA

	2020	2019
	RO'000	RO'000
Deferred sales under Murabaha profit	**127**	102

22. IJARAH MUNTAHIAH BITTAMLEEK

	2020	2019
	RO'000	RO'000
Income from Ijarah Muntahia Bittamleek	**11,319**	13,097
Less : Depreciation	**(7,069)**	(8,934)
	4,250	4,163

23. DIMINISHING MUSHARAKA

	2020	2019
	RO'000	RO'000
Income from Diminishing Musharaka	**4,020**	2,454

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

24. RETURN ON UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2020	2019
	RO'000	RO'000
Mudarabha savings account	**33**	35

25. RETURN ON WAKALA ACCOUNTHOLDERS

	2020	2019
	RO'000	RO'000
Wakala	**2,095**	1,939
Flex Wakala	**2,744**	1,924
	4,839	3,863

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
	RO'000	RO'000
Salaries and allowances	1,158	1,216
Rent, rates and taxes	6	197
Publicity	7	30
Management fee to Head Office	93	85
Repair and maintenance	85	14
Legal and professional fees	19	28
Stationery	26	15
Directors' fees	34	44
Travel expenses	2	4
Miscellaneous expenses	215	285
	1,645	1,918

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS

In the ordinary course of business, Muzn conducts transactions with certain of its Directors, shareholders of the Bank and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows

	2020	2019
DEPOSITS AND OTHER ACCOUNTS	RO'000	RO'000
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**537**	543

	2020	2019
FINANCING	RO'000	RO'000
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	58	89

The statement of income includes the following amounts in relation to transactions with related parties:

	2020	2019
REMUNERATION PAID TO DIRECTORS & SHARIA SUPERVISORY BOARD MEMBERS	RO'000	RO'000
Chairman		
• remuneration proposed	**8**	8
• sitting fees paid	**2**	2
• other expenses paid	**0**	2
Other Directors		
• remuneration proposed	**15**	15
• sitting fees paid	**9**	8
• other expenses paid	**0**	9
Management fee payable to conventional banking	**93**	85

28. CONTINGENT LIABILITIES AND COMMITMENTS

28.1 CREDIT RELATED CONTINGENT ITEMS

The Window is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Window's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending financing facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for financing to customers.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

28. CONTINGENT LIABILITIES AND COMMITMENTS *(CONTINUED)*

28.1 CREDIT RELATED CONTINGENT ITEMS *(CONTINUED)*

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2020	2019
	RO'000	RO'000
Letters of credit	**476**	210
Letters of guarantee	**572**	298
	1048	508

The contingent liabilities are concentrated to wholesale and retail trade sector only.

28.2 CAPITAL AND INVESTMENT COMMITMENTS

	2020	2019
	RO'000	RO'000
Contractual commitments for Forward Ijarah	**233**	575
Contractual commitments for Diminishing Musharaka	**19,194**	34,939
	19,427	35,514
Operating lease commitments	**301**	530
Future minimum lease payments:		
Not later than one year	**101**	197
Later than one year and not later than five years	**200**	333
	301	530

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk and Operational Risk. All risk management functions report to Chief Risk Officer and are independent from Business Units. Muzn has exposure to credit risk, liquidity risk and market risk.

CREDIT RISK

To discharge their contractual obligations to Muzn. Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Credit risk management

To manage the level of credit risk, Muzn deals with counter-parties of good credit. Corporate Credit Committee of the Board is the final credit approving authority of Muzn which is mainly responsible for approving all credit proposals beyond the authority level of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk mitigation policies

Muzn manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. Muzn 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 and Board Risk Committee.

To facilitate risk mitigation Moody's, S&P and Fitch ratings have also been set up and are also being used as guidelines to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

The analysis of financing portfolio is provided below. It is pertinent to mention that the financing portfolio consists of all standard accounts and there is no impairment in the portfolio.

With the recent adoption of IFRS 9 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information.

a. **Geographical concentrations**

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

MUZN MANAGES CREDIT RISK BY SETTING INTERNAL LIMITS ON THE AMOUNT OF RISK **IT IS WILLING TO ACCEPT IN LINE WITH THE GUIDELINES OF CENTRAL BANK OF OMAN**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

b. Customer concentrations Customer concentrations

ON ASSETS	DUE FROM BANKS AND FINANCIAL INSTITUTIONS	FINANCIAL ASSETS AT AMORTIZED COST	DEFERRED SALES UNDER MURABAHA	IJARAH MUNTAHIA BITTAMLEEK
31 DECEMBER 2020	RO'000	RO'000	RO'000	RO'000
Retail	-	-	**1,996**	**59,857**
Corporate	**5,232**	**17,899**	**826**	**11,802**
TOTAL	**5,232**	**17,899**	**2,822**	**71,659**
ON ASSETS		**DIMINISHING MUSHARAKA**	**FORWARD IJARAH**	**SERVICE IJARAH**
31 DECEMBER 2020		RO'000	RO'000	RO'000
Retail		**6,834**	-	**22**
Corporate		**67,580**	-	-
TOTAL		**74,414**	-	**22**
ON LIABILITIES	**CURRENT ACCOUNTS**	**WAKALA ACCOUNTS**	**DUE TO BANKS AND FINANCIAL INSTITUTIONS**	**UNRESTRICTED INVESTMENT ACCOUNTHOLDERS**
31 DECEMBER 2020	RO'000	RO'000	RO'000	RO'000
Retail	**727**	**23,465**	-	**7,758**
Corporate	**9,360**	**118,855**	**5,828**	-
TOTAL	**10,087**	**142,320**	**5,828**	**7,758**
ON ASSETS	**DUE FROM BANKS AND FINANCIAL INSTITUTIONS**	**FINANCIAL ASSETS AT AMORTIZED COST**	**DEFERRED SALES UNDER MURABAHA**	**IJARAH MUNTAHIA BITTAMLEEK**
31 DECEMBER 2019	RO'000	RO'000	RO'000	RO'000
Retail	-	-	1,660	58,804
Corporate	443	11,935	556	19,142
	443	11,935	2,216	77,946
ON ASSETS		**DIMINISHING MUSHARAKA**	**FORWARD IJARAH**	**SERVICE IJARAH**
31 DECEMBER 2019		RO'000	RO'000	RO'000
Retail		3,918	3,352	27
Corporate		52,289	728	-
TOTAL		56,207	4,080	27
ON LIABILITIES	**CURRENT ACCOUNTS**	**WAKALA ACCOUNTS**	**DUE TO BANKS AND FINANCIAL INSTITUTIONS**	**UNRESTRICTED INVESTMENT ACCOUNTHOLDERS**
31 DECEMBER 2019	RO'000	RO'000	RO'000	RO'000
Retail	1,470	19,338	-	6,378
Corporate	5,886	101,784	5,786	-
TOTAL	7,356	121,122	5,786	6,378

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

c. Economic sector concentrations

ASSETS					
	DEFERRED SALES UNDER MURABAHA	IJARAH MUNTAHIAH BITTAMLEEK	DIMINISHING MUSHARAKA	FORWARD IJARAH	SERVICE IJARAH
31 DECEMBER 2020	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	**1,944**	**59,857**	**6,838**	**-**	**22**
Construction	**-**	**7,811**	**18,939**	**-**	**-**
Manufacturing	**87**	**201**	**11,137**	**-**	**-**
Trade	**507**	**23**	**599**	**-**	**-**
Services	**285**	**3,767**	**36,901**	**-**	**-**
TOTAL	**2,823**	**71,659**	**74,414**	**-**	**22**

LIABILITIES			
	CURRENT ACCOUNTS	WAKALA ACCOUNTS	SAVINGS ACCOUNTS
31 DECEMBER 2020	RO'000	RO'000	RO'000
Personal	**10,087**	**142,320**	**7,758**
Construction	**-**	**-**	**-**
Manufacturing	**-**	**-**	**-**
Trade	**-**	**-**	**-**
Services	**-**	**-**	**-**
TOTAL	**10,087**	**142,320**	**7,758**

ASSETS					
	DEFERRED SALES UNDER MURABAHA	IJARAH MUNTAHIAH BITTAMLEEK	DIMINISHING MUSHARAKA	FORWARD IJARAH	SERVICE IJARAH
31 DECEMBER 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	1,660	58,803	3,918	3,352	27
Construction	5	13,994	20,553	728	-
Manufacturing	115	486	12,805	-	-
Trade	303	26	659	-	-
Services	133	4,637	18,272	-	-
TOTAL	2,216	77,946	56,207	4,080	27

LIABILITIES			
	CURRENT ACCOUNTS	WAKALA ACCOUNTS	SAVINGS ACCOUNTS
31 DECEMBER 2019	RO'000	RO'000	RO'000
Personal	7,357	121,122	6,378
Construction	-	-	-
Manufacturing	-	-	-
Trade	-	-	-
Services	-	-	-
TOTAL	7,357	121,122	6,378

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT

Definition of default and cure

The Window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Window considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the window carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Window
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Window
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection - Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

IIt is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months.
The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

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

Given the nature of the Window's exposures and availability of historical statistically reliable information, the Window derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:6

a. Historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),

b. Size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT *(CONTINUED)*

c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.

5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question

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

KEY DRIVERS	ECL SCENARIO AND ASSIGNED WEIGHTAGE	2021	2022	2023
REAL FINANCE RATE	Base scenario	7.6%	7.6%	7.6%
	Upside scenario	5.8%	6.4%	6.9%
	Downside scenario	8.9%	8.1%	7.4%
GDP	Base scenario	4.3%	4.3%	4.3%
	Upside scenario	5.1%	4.3%	4.2%
	Downside scenario	2.9%	3.6%	3.7%
GDP PER CAPITA	Base scenario	0.2%	0.7%	0.1%
	Upside scenario	1.1%	0.4%	0.2%
	Downside scenario	-1.0%	-0.4%	-0.2%

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT *(CONTINUED)*

Consumer lending and retail mortgages

Consumer lending comprises secured personal financing and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Window determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Window's models.

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in Muzn.

The Window estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Window continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or LTECL, the Window assesses whether there has been a significant increase in credit risk since initial recognition.

The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT *(CONTINUED)*

Significant Increase in Credit Risk (continued)

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.

b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.

c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.

d. Frequent changes in key senior management personnel without acceptable successors or professional management.

e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.

f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.

g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.

h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.

i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.

j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.

k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Model risk management:

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Window has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of Muzn. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Window in terms of usage of models.

Liquidity risk

Liquidity risk is the potential inability to meet Muzn's liabilities as they become due. It arises when Muzn is unable to generate cash to cope with a decline in deposits or increase in assets.

Muzn's liquidity risk management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of the relevant CBO guidelines on liquidity risk management through cash flow approach. The liquidity management does not only measure the liquidity position of Muzn on an going basis but also examine how funding requirement are likely to evolve under various scenarios.

Muzn monitors its liquidity risk through cash flow approach and stock approach. Under the cash flow approach, Muzn generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to over five years. The mismatches in various time buckets indicate liquidity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT *(CONTINUED)*

Liquidity risk (continued)

Tgap and Muzn strictly adheres to the CBO set limit of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Muzn has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is required to maintain a minimum required level of 100% effective from January 1, 2020.

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is required to maintain a minimum ratio of 100% as per the regulatory guidance. The residual maturity profile of the assets, liabilities and equity at 31 December 2020 is as follows:

	DUE ON DEMAND AND UP TO 30 DAY	MORE THAN 1 MONTH TO 6 MONTHS	MORE THAN 6 MONTHS TO 12 MONTHS	MORE THAN 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
31 DECEMBER 2020	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	14,368	1,660	861	614	993	18,496
Due from banks and financial institutions	5,232	-	-	-	-	5,232
Financial assets at amortized cost	532	969	-	-	16,398	17,899
Deferred salesunder Murabaha	146	1,161	833	242	441	2,823
Ijarah Muntahiah Bittamleek – net	672	9,013	507	4,571	56,896	71,659
Diminishing Musharaka	490	28,336	5,175	674	39,739	74,414
Forward Ijarah	-	-	-	-	-	-
Service Ijarah	-	9	3	2	8	22
Property and equipment (net)	-	-	-	-	530	530
Other assets	1,578	-	-	-	-	1,578
TOTAL ASSETS	**23,018**	**41,148**	**7,379**	**6,103**	**115,005**	**192,653**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT *(CONTINUED)*

Liquidity risk (continued)

	DUE ON DEMAND AND UP TO 30 DAY	MORE THAN 1 MONTH TO 6 MONTHS	MORE THAN 6 MONTHS TO 12 MONTHS	MORE THAN 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
31 DECEMBER 2020						
Current accounts	2,017	3,530	2,018	-	2,522	10,087
Wakala accounts	19,096	55,911	28,007	9,839	29,467	142,320
Due to banks and financial institutions	5,828	-	-	-	-	5,828
Other liabilities	5,015	-	-	-	-	5,015
Unrestricted investment account holders	711	1,422	1,422	2,135	2,068	7,758
Owner's equity	-	-	-	-	21,645	21,645
TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**32,667**	**60,863**	**31,447**	**11,974**	**55,702**	**192,653**

The maturity profile of the assets, liabilities and equity at 31 December 2019 is as follows:

	DUE ON DEMAND AND UP TO 30 DAY	MORE THAN 1 MONTH TO 6 MONTHS	MORE THAN 6 MONTHS TO 12 MONTHS	MORE THAN 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
31 DECEMBER 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	7,208	1,409	675	635	827	10,754
Due from banks and financial institutions	443	-	-	-	-	443
Financial assets at amortized cost	3,512	-	-	963	7,459	11,934
Deferred sales receivables	89	1,031	428	237	431	2,216
Ijarah Muntahiah Bittamleek – net	1,537	10,466	9,725	1,516	54,702	77,946
Diminishing Musharaka	469	15,170	14,172	4,280	22,116	56,207
Forward Ijarah	47	121	608	3,304	-	4,080
Service Ijarah	-	11	7	3	6	27
Property and equipment (net)	-	-	-	-	329	329
Other assets	490	-	-	-	-	490
TOTAL ASSETS	13,795	28,208	25,615	10,938	85,870	164,426
Current accounts	1,471	2,575	1,472	-	1,839	7,357
Wakala accounts	14,718	46,957	21,732	13,154	24,561	121,122
Due to banks and financial institutions	5,786	-	-	-	-	5,786
Other liabilities	4,000	-	-	-	-	4,000
Unrestricted investment account holders	585	1,170	1,170	1,754	1,699	6,378
Owner's equity	-	-	-	-	19,783	19,783
TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	26,560	50,702	24,374	14,908	47,882	164,426

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

IMPAIRMENT ASSESSMENT *(CONTINUED)*

Liquidity coverage ratio

	TOTAL UNWEIGHTED VALUE (AVERAGE)	TOTAL WEIGHTED VALUE (AVERAGE)
	RO'000	RO'000
HIGH QUALITY LIQUID ASSETS		
Total High Quality Liquid Assets (HQLA)	27,676	27,449
Cash outflows Retail deposits and deposits from small business customers of which:	23,166	1,918
Stable deposits	7,972	399
Less stable deposits	15,194	1,519
Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	91,528	33,024
Additional requirements, of which credit andliquidity facilities	2,567	257
Credit and liquidity facilities	2,402	1,958
TOTAL CASH OUTFLOWS	**119,663**	**37,157**

	TOTAL UNWEIGHTED VALUE (AVERAGE)	TOTAL WEIGHTED VALUE (AVERAGE)
	RO'000	RO'000
CASH INFLOWS		
Inflows from fully performing exposures	28,635	27,834
Other cash inflows	2,397	2,397
TOTAL CASH INFLOWS	**31,032**	**30,231**
TOTAL HIGH QUALITY LIQUID ASSETS		**27,449**
TOTAL NET CASH OUTFLOWS		**9,289**
LIQUIDITY COVERAGE RATIO (%)		**295.50**

Net Stable Funding Ratio

	TOTAL WEIGHTED VALUE
	RO'000
Total available stable funding	144,422
Total required stable funding	129,926
NET STABLE FUNDING RATIO (%)	**111.2%**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

MARKET RISK

Market risk includes currency risk, profit rate risk and equity price risk.

a. Currency risk

Muzn is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Muzn is exposed is the US Dollar which is effectively pegged to Rial Omani. Muzn finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

b. Profit rate risk

Profit rate risk (PRR) is the risk that Muzn will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders in based on Profit Sharing Agreements. Therefore, Muzn is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Muzn's results do not allow it to distribute profits in line with the market rates.

Muzn has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with Muzn's Asset and Liability Management Committee (ALCO).

Profit rate risk is managed by monitoring the sensitivity of Muzn's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines.
The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in profit rate is provided below:

AS AT DECEMBER 2020	200 BPS INCREASE	200 BPS DECREASE
Earnings impact - RO'000s	**502**	**(502)**

MUZN HAS A DETAILED PROFIT DISTRIBUTION POLICY IN PLACE WHICH DETAILS THE PROCESS AND MANAGEMENT **OF PROFIT DISTRIBUTION, INCLUDING SETTING UP OF PROFIT EQUALIZATION & INVESTMENT RISK RESERVE**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

MARKET RISK *(CONTINUED)*

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. Muzn manages these mismatches by following policy guidelines and reduces risk by matching the re-pricing of assets and liabilities.

	EFFECTIVE AVERAGE PROFIT RATE	DUE ON DEMAND AND WITHIN 6 MONTHS	DUE WITHIN 7 TO 12 MONTHS	DUE WITHIN 1 TO 5 YEARS	DUE AFTER 5 YEARS	NON PROFIT BEARING	TOTAL
31 DECEMBER 2020	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	18,496	18,496
Due from banks and financial Institutions	0.0%	3,000	-	-	-	2,232	5,232
Financial assets at amortised cost	5.1%	968	2,986	4,357	9,588	-	17,899
Deferred sales under Murabaha	5.4%	1,307	833	242	441	-	2,823
Ijarah Muntahia Bittamleek – net	5.3%	**9,685**	507	4,571	56,896	-	71,659
Diminishing Musharaka	5.8%	28,826	5,175	674	39,739	-	74,414
Forward Ijarah	N/A	-	-	-	-	-	-
Service Ijarah	6.0%	9	3	2	8	-	22
Property and equipment- net	N/A	-	-	-	-	530	530
Other assets	N/A	-	-	-	-	1,578	1,578
TOTAL ASSETS		**43,795**	**9,504**	**9,846**	**106,672**	**22,836**	**192,653**
Current accounts	N/A	-	-	-	-	10,087	10,087
Wakala accounts	3.8%	75,007	28,007	9,839	29,467	-	142,320
Due to banks and financial institutions	2.1%	5,828	-	-	-	-	5,828
Other liabilities	N/A	-	-	-	-	5,015	5,015
Unrestricted investment account holders	0.7%	**2,133**	1,422	2,135	2,068	-	7,758
Owners' equity	N/A	-	-	-	-	21,645	21,645
TOTAL LIABILITIES AND OWNERS' EQUITY		**82,968**	**29,429**	**11,974**	**31,535**	**36,747**	**192,653**
ON-BALANCE SHEET GAP		**(39,173)**	**(19,925)**	**(2,128)**	**75,137**	**(13,911)**	
CUMULATIVE PROFIT SENSITIVITY GAP		**(39,173)**	**(59,098)**	**(61,226)**	**13,911**	**-**	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

MARKET RISK *(CONTINUED)*

Profit rate sensitivity gap

	EFFECTIVE AVERAGE PROFIT RATE	DUE ON DEMAND AND WITHIN 6 MONTHS	DUE WITHIN 7 TO 12 MONTHS	DUE WITHIN 1 TO 5 YEARS	DUE AFTER 5 YEARS	NON PROFIT BEARING	TOTAL
31 DECEMBER 2019	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	10,754	10,754
Due from banks and financial Institutions	0.0%	-	-	-	-	443	443
Financial assets at amortised cost	5.1%	-	2,962	5,314	3,658	-	11,934
Deferred sales under Murabaha	5.4%	1,120	428	237	431	-	2,216
Ijarah Muntahia Bittamleek – net	5.3%	12,003	9,725	1,516	54,702	-	77,946
Diminishing Musharaka	5.8%	15,639	14,172	4,280	22,116	-	56,207
Forward Ijarah	N/A	-	-	-	-	4,080	4,080
Service Ijarah	6.0%	11	7	3	6	-	27
Property and equipment – net	N/A	-	-	-	-	329	329
Other asset	N/A	-	-	-	-	490	490
TOTAL ASSETS		28,773	27,294	11,350	80,913	16,096	164,426
Current accounts	N/A	-	-	-	-	7,357	7,357
Wakala accounts	3.8%	61,675	21,732	13,154	24,561	-	121,122
Due to banks and financial institutions	2.1%	5,786	-	-	-	-	5,786
Other liabilities	N/A	-	-	-	-	4,000	4,000
Unrestricted investment account holders	0.7%	1,755	1,170	1,754	1,699	-	6,378
Owners' equity	N/A	-	-	-	-	19,783	19,783
TOTAL LIABILITIES AND OWNERS' EQUITY		69,216	22,902	14,908	26,260	31,140	164,426
ON-BALANCE SHEET GAP		(40,443)	4,392	(3,558)	54,653	(15,044)	
CUMULATIVE PROFIT SENSITIVITY GAP		(40,443)	(36,051)	(39,609)	15,044	-	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

MARKET RISK *(CONTINUED)*

c. Equity risk

Currently, Muzn is not exposed to any Equity risk. The window applies the stress testing on a regular basis. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Operational risk

Muzn has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Muzn to provide 15% of the average three years gross annual income as capital charge for operational risk.

30. CAPITAL RISK MANAGEMENT

Muzn manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. Muzn's overall strategy remains the same as applicable for Head Office.

The capital adequacy for Muzn is set out as below:

	2020	2019
	RO'000	RO'000
Assigned capital	20,000	20,000
Accumulated losses	1,040	(775)
Tier I capital	**21,040**	19,225
Excepted Credit Losses	934	674
Tier II capital	934	674
Total capital available	**21,974**	19,899
Risk weighted assets (RWA)		
Credit risk	127,720	114,758
Market risk	2,367	5
Operational risk	7,009	5,625
Total RWA	**137,096**	120,388
Capital ratios		
TOTAL CAPITAL RATIO	**16.03%**	16.5%
TOTAL TIER I RATIO	**15.35%**	16.0%

31. SEGMENTAL INFORMATION

Muzn is organised into three main business segments:

1. Retail banking – incorporating private customer current accounts, savings, deposits, deferred sales under Murabaha, Ijarah Muntahia Bittamleek, Forward Ijarah and Diminishing Musharaka.
2. Corporate banking – incorporating corporate customer current accounts, savings, deposits, deferred sales under Murabaha, Diminishing Musharaka, Ijarah Muntahia Bittamleek and Forward Ijarah.
3. Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and deposits.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

31. SEGMENTAL INFORMATION *(CONTINUED)*

	RETAIL BANKING	CORPORATE BANKING	TREASURY AND INVESTMENTS	OTHER	TOTAL
31 DECEMBER 2020	RO'000	RO'000	RO'000	RO'000	RO'000
Segment operating revenues	3,368	5,029	777	-	**9,174**
Other revenues	73	162	126	39	**400**
Segment operating revenues	3,441	5,191	903	39	**9,574**
Profit expenses	(667)	(4,205)	(53)	(116)	**(5,041)**
Net operating income	2,774	986	850	(77)	**4,533**
Segment cost					
Operating expenses including depreciation	(814)	(112)	11	(1,009)	**(1,924)**
Impairment for finances net of allowance for provision	282	(1,050)	23	-	**(745)**
Net Profit for the year	2,242	(176)	884	(1,086)	**1,864**
Gross segment assets	70,364	82,012	40,549	2,108	**195,033**
Less: Impairment allowance	(504)	(1,845)	(31)	-	**(2,380)**
Segment assets	69,860	80,167	40,518	2,108	**192,653**
Segment liabilities	26,658	107,670	6,868	5,660	**146,856**
31 DECEMBER 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Segment operating revenues	3,274	3,444	517	-	7,235
Other revenues	61	616	109	57	843
Segment operating revenues	3,335	4,060	626	57	8,078
Profit expenses	(525)	(3,373)	(277)	(101)	(4,276)
Net operating income	2,810	687	349	(44)	3,802
Segment cost					
Operating expenses including depreciation	(956)	(145)	(85)	(896)	(2,082)
Impairment for finances net of allowance for provision	217	(423)	-	-	(206)
Net profit for the year	2,071	119	264	(940)	1,514
Gross segment assets	69,201	73,980	22,008	819	166,008
Less: Impairment allowance	(263)	(1,264)	(55)	-	(1,582)
Segment assets	68,938	72,716	21,953	819	164,426
Segment liabilities	26,658	107,670	25,569	4,529	164,426

32. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.

NBO'S BRANCH **NETWORK**

60 BRANCHES **IN OMAN**

18 SADARA **CENTRES**

6 MUZN ISLAMIC **BANKING BRANCHES**

2 BRANCHES **IN UAE**

Branch	Telephone No	
Azaiba - HO Branch	24778190	24778355
MUSCAT SOUTH REGION BRANCHES		
Hamriya	24831520	24833792
Corniche	24715103	24714245
Wattaya	24563830	24560585
Qurriat	24846100	24846415
MAF	24565561	24566860
Qurum	24560050	24562615
CBD	24778350	24778351
Amerat	24879464	24875766
Shati Qurum	24607161	24607687
MUSCAT NORTH REGION BRANCHES		
Al Azaiba	24597855	24591341
Al Mawaleh	24511164	24511165
Bousher	24587291	24587294
Ministry Of Health	24692310	24692309
Al Khoudh	24537950	24537951
Seeb Town	24423512	24423511
Maabella	24453314	24455957
Ghoubra/ Main Branch	24778337	24778339
Bukha	26828014	
Muscat Internationl Airport	24356922	24356921
Ministry of Education.	24253778	24253778
Khasab	26731442	26730467
Al Khuwair	24486441	24486481
Sultan qaboos university	24446768	24446556

Branch	Telephone No	
DAKHLIYA & DHAHIRA REGION BRANCHES		
Nizwa	25413169	25410072
Buraimi	25653037	
Ibri	25691161	
Bahla	25363613	25363786
Sumail	25350355	
Fanja	25361190	
Al Hamra	25422008	
FIRQ	25432149	
Dhank	25676603	
Araqi	25694342	
BATINA REGION BRANCHES		
Afi	26780972	26781562
Rustaq	26878334	26878332
Sohar Al Hambar	26859105	26859104
Shinas	26748394	26747663
Barka	26882007	
Khabourah	26802380	26805155
Musna	26870182	26871118
Saham	26855299	26855146
Bidaya	26709340	26709240
Sohar Ind.	26755878	26755875
Al Suwaiq	26862764	
Sohar	26840234	26843780
Liwa	26762073	26762075
SHARQIYA REGION BRANCHES		
Ibra	25570144	25570015
Sur	25545158	25540246
Al Kamil	25557524	25557770
Bani Bu Ali	25554015	25554138
Jalaan	25550950	25550110
Masirah	25504516	25504026
Al Mudhaibi	25578484	25578014
Sinaw	25524212	25524223
Duqum	25427101	25427130

Branch	Telephone No	
DHOFAR REGION BRANCHES		
Salalah	23291346	23291601
SQH	23211092	23211042
Mirbat	23268345	23268346
Saada	23225283	23226031
New Salalah	23298027	23298037
SADARA CENTRE		
Azaiba HO	24778151	
Al Khoudh	24271367	
Al Mawaleh	24348118	
MOE	24510007	
Al Khuwair	22826073	
CBD	24774339	
Shatti	24607679	
MAF	24565163	
Sur	25545414	
Sohar Hambar	26859103	
Rustaq	26878334	
SIA	26755886	
Saham	26855299	
Barka	26882368	
Buraimi	25642989	
Nizwa	25431401	
Firq	25431122	
Salalah	23298092	
MUZN ISLAMIC BANKING		
Azaiba	24617401	24617469
Sur	25540642	25540726
Sohar	26846692	26751309
Nizwa	25411241	25411681
Salalah	23289230	23291310
Maabella	24452387	24452325
UAE		
Abu Dhabi	97126974000	
Dubai	97143049400	

البنك الوطني العماني

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