

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

DRAFT

30 JUNE 2020 (UNAUDITED)



SR.NO	INDEX	PAGE NO
1	CHAIRLADY'S REPORT	1
2	INDEPENDENT AUDITORS' REPORT ON INTERIM CONDENSED FINANCIAL INFORMATION	2
3	INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	3
4	INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	4
5	INTERIM CONDENSED STATEMENT OF CASH FLOWS	5
6	INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	6
7	NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS	7-31

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (unaudited)

		<i>30/06/2020</i>	<i>30/06/2019</i>	<i>Audited</i> <i>31/12/2019</i>
	<i>Notes</i>	RO'000	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	299,345	234,761	333,772
Due from banks and other money market placements (net)	4	121,159	152,621	109,376
Loans, advances and financing activities for customers (net)	5	2,825,992	2,814,547	2,801,557
Financial investments	6	317,592	268,929	292,549
Premises and equipment	7	66,011	63,662	66,694
Other assets	8	58,458	49,675	40,746
Total assets		3,688,557	3,584,195	3,644,694
Liabilities				
Due to banks and other money market deposits	9	241,601	154,601	283,786
Customers' deposits and unrestricted investment accounts	10	2,631,145	2,489,065	2,531,518
Euro medium term notes	11	192,500	307,690	192,500
Other liabilities	12	83,216	91,789	69,819
Taxation	13	9,098	12,369	13,221
Total liabilities		3,157,560	3,055,514	3,090,844
Equity				
Share capital		162,595	162,595	162,595
Share premium		34,465	34,465	34,465
Legal reserve		54,198	54,198	54,198
Other non-distributable reserves	14	5,555	(2,986)	3,621
Proposed cash dividend		-	-	27,316
Retained earnings		158,684	164,909	156,155
Total shareholders' equity attributable to the equity holders of the bank		415,497	413,181	438,350
Tier 1 perpetual bond	15	115,500	115,500	115,500
Total equity		530,997	528,681	553,850
Total liabilities and equity		3,688,557	3,584,195	3,644,694
Contingent liabilities and commitments	16	588,275	713,778	777,719

The interim condensed financial statements were authorised for issue on XX July 2020 in accordance with a resolution of the Board of Directors.

Chairperson

Acting Chief Executive Officer

The attached notes 1 to 31 form part of the interim condensed financial statements.

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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 30 June 2020 (unaudited)

	Notes	<u>Six months ended</u>		<u>Three months ended 30</u>	
		<u>30 June</u>		<u>June</u>	
		2020	2019	2020	2019
		RO'000	RO'000	RO'000	RO'000
Interest income	17	81,699	81,008	41,081	40,820
Interest expense	18	(38,567)	(36,341)	(19,288)	(18,350)
NET INTEREST INCOME		43,132	44,667	21,793	22,470
Income from Islamic financing and Investment activities		4,368	3,477	2,192	1,786
Unrestricted investment account holders' share of profit		(2,314)	(1,875)	(1,152)	(968)
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		2,054	1,602	1,040	818
NET INTEREST INCOME AND NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		45,186	46,269	22,833	23,288
Other operating income	19	14,247	18,079	5,858	8,723
OPERATING INCOME		59,433	64,348	28,691	32,011
Staff costs		(19,381)	(18,452)	(10,151)	(8,745)
Other operating expenses	20	(9,676)	(9,551)	(4,955)	(4,732)
Depreciation	7	(3,246)	(2,245)	(1,652)	(1,135)
OPERATING EXPENSES		(32,303)	(30,248)	(16,758)	(14,612)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		27,130	34,100	11,933	17,399
TOTAL IMPAIRMENT LOSSES (NET)		(9,368)	(4,249)	(5,752)	(2,251)
PROFIT BEFORE TAX		17,762	29,851	6,181	15,148
Taxation	12	(2,737)	(4,570)	(934)	(2,324)
PROFIT FOR THE PERIOD		15,025	25,281	5,247	12,824
OTHER COMPREHENSIVE EXPENSES					
Items that will not be reclassified subsequently to profit or loss					
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		(5,651)	(2,698)	1,714	(987)
Items that will be reclassified subsequently to profit or loss					
Debt instruments at fair value through other comprehensive income		(362)	283	836	220
Tax effect of net results on FVOCI financial investments		609	(112)	(291)	(112)
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		(5,404)	(2,527)	2,259	(879)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		9,621	22,754	7,506	11,945
Earnings per share:					
Basic and diluted, earnings for the period attributable to equity holders		0.006	0.013	0.000	0.005

The attached notes 1 to 31 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 30 June 2020 (unaudited)

	Notes	Six months ended	
		30 June 2020 RO'000	2019 RO'000
Profit before taxation		17,762	29,851
Adjustments for:			
Depreciation	7	2,272	2,245
Provision for credit losses (net)		11,751	8,297
(Release)/Provision for credit loss for Bank loans/Investments (net)		(401)	30
Profit on sale of premises and equipment		(5)	(22)
Loss on sale of trading investments		(371)	(7)
Dividend income		(1,488)	(1,158)
Operating profit before changes in operating assets and liabilities		30,262	39,236
Decrease/ (increase) in due from and other money market deposits		9,359	(1,998)
Increase/(decrease) in due to and other money market placements		(13,477)	13,782
Increase in loans and advances to customers		(36,186)	(13,173)
(Increase)/decrease in other assets		(18,318)	4,085
Increase in customer deposits		99,627	36,683
Increase/(decrease) in other liabilities		13,397	(1,203)
Cash from operations		84,664	77,412
Tax paid		(7,091)	(1,900)
Net cash from operating activities		77,573	75,512
Investing activities			
Purchase of investments		(39,244)	(40,183)
Proceeds from sale of investments		8,416	-
Purchase of premises and equipment	7	(1,298)	(1,562)
Disposal of premises and equipment		5	29
Translation difference in premises & equipment & Tax		(4)	4
Dividend income	19	1,488	1,158
Net cash used in investing activities		(30,637)	(40,554)
Financing activities			
Payment of dividend		(27,316)	(26,015)
Repayment of Subordinated debt		-	(17,000)
Interest on Tier 1 perpetual bond		(4,548)	(4,548)
Net cash used in financing activities		(31,864)	(47,563)
Increase/(decrease) in cash and cash equivalents		15,072	(12,605)
Cash and cash equivalents at the beginning of the period		261,314	255,486
Cash and cash equivalents at the end of the period		276,386	242,881
Representing:			
Cash and balances with Central Bank	3	298,845	234,261
Due from Bank (maturing within 3 months)		95,942	126,364
Due to Bank (maturing within 3 months)		(118,401)	(117,744)
		276,386	242,881

The attached notes 1 to 31 form part of the interim condensed financial statements.

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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2020 (unaudited)

(RO'000)

	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Legal reserve</i>	<i>Other non-distributable reserves</i>	<i>Proposed cash dividend</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Tier 1 perpetual bond</i>	<i>Total</i>
Balance at 1 January 2020	162,595	34,465	54,198	3,621	27,316	156,155	438,350	115,500	553,850
Total comprehensive income for the period	-	-	-	(5,404)	-	15,025	9,621	-	9,621
Net losses on de-recognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(610)	(610)	-	(610)
Dividend paid during the period	-	-	-	-	(27,316)	-	(27,316)	-	(27,316)
Payment of tier 1 perpetual bond	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to impairment reserve	-	-	-	7,338	-	(7,338)	-	-	-
Balance at 30 June 2020	162,595	34,465	54,198	5,555	-	158,684	415,497	115,500	530,997
Balance at 1 January 2019	162,595	34,465	54,198	16,541	26,015	127,176	420,990	115,500	536,490
Total comprehensive income for the period	-	-	-	(2,527)	-	25,281	22,754	-	22,754
Payment of tier 1 perpetual bond	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to retained earnings	-	-	-	(17,000)	-	17,000	-	-	-
Dividend paid during the period	-	-	-	-	(26,015)	-	(26,015)	-	(26,015)
Balance at 30 June 2019	162,595	34,465	54,198	(2,986)	-	164,909	413,181	115,500	528,681
Balance at 01 July 2019	162,595	34,465	54,198	(2,986)	-	164,909	413,181	115,500	528,681
Total comprehensive income for the period	-	-	-	1,546	-	26,150	27,696	-	27,696
Payment of tier 1 perpetual bond	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Reversal of WHT on tier 1 perpetual bond	-	-	-	-	-	2,021	2,021	-	2,021
Transfer to impairment reserve	-	-	-	5,061	-	(5,061)	-	-	-
Proposed dividend	-	-	-	-	27,316	(27,316)	-	-	-
Balance at 31 December 2019	162,595	34,465	54,198	3,621	27,316	156,155	438,350	115,500	553,850

*Transfers to legal reserve are made on an annual basis.

The attached notes 1 to 31 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)**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 overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a 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 year 2020. The bank is head quartered in Muscat 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 1,578 employees as of 30 June 2020 (30 June 2019 – 1,564 employees / 31 December 2019 - 1,593).

2 SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting and the relevant disclosure requirements of the Capital Market Authority ("CMA"). The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019, results of the six months period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the six months ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as 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 interim condensed financial statements are prepared under the historical cost convention, modified to include revaluation of freehold land and buildings, measurement of derivative financial instruments and certain investments, either through profit and loss account or through other comprehensive Income, at fair value.

The preparation of the interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates (refer note 31).

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

- (a) Definition of a Business – Amendments to IFRS 3 (Effective from 1 January 2020)
- (b) Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (Effective from 1 January 2020)
- (c) Definition of Material – Amendments to IAS 1 and IAS 8 (Effective from 1 January 2020)
- (d) The Conceptual Framework for Financial Reporting (Effective from 1 January 2020)

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/06/2020</i>	<i>30/06/2019</i>	<i>31/12/2019</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	45,538	49,464	43,863
Treasury bills	48,000	161	2,000
Certificate of Deposit with Central Banks	11,006	17,819	5,241
Other balances with Central Banks	194,301	166,817	282,168
Cash and cash equivalents	298,845	234,261	333,272
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	299,345	234,761	333,772

- (i) At 30 June 2020, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (30 June 2019: RO 500,000, 31 Dec 2019 –RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.
- (ii) Minimum cash reserve to be maintained with Central Bank of Oman as of 30 June 2020 is 3% of total deposits and for Central bank of UAE, is 1% of time deposits and 14% 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.

4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

	<i>30/06/2020</i>	<i>30/06/2019</i>	<i>31/12/2019</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	17,903	12,666	25,371
Placements with bank	12,892	99,749	46,145
Demand balances	90,484	40,592	38,331
Due from banks and other money market placement	121,279	153,007	109,847
Less: allowance for credit losses	(120)	(386)	(471)
Net due from banks and other money market placement	121,159	152,621	109,376

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

	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>Ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2020</i>	<i>30/06/2019</i>	<i>31/12/2019</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	471	379	379
(Released)/provided during the period / year	(351)	7	92
Balance at end of period / year	120	386	471

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

5 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

	<i>30/06/2020</i>	<i>30/06/2019</i>	<i>31/12/2019</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Overdrafts	98,236	98,669	107,387
Personal loans	1,362,451	1,390,777	1,362,833
Other loans	1,494,342	1,463,961	1,449,626
Gross loans, advances and financing activities for customers	2,955,029	2,953,407	2,919,846
Less: allowance for credit losses	(129,037)	(138,860)	(118,289)
Net loans and advances	2,825,992	2,814,547	2,801,557

Gross loans, advances and financing activities for customers include RO 114 million due from related parties at 30 June 2020 (30 June 2019 – RO 127 million, 31 Dec 2019 – RO 140 million).

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

	<i>6 months ended</i>	<i>6 months ended</i>	<i>12 months ended</i>
	<i>30/06/2020</i>	<i>30/06/2019</i>	<i>31/12/2019</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	118,289	130,378	130,378
Provided during the period / year	15,188	15,055	25,729
Recovered/ released during the period / year	(1,668)	(1,932)	(3,303)
Written off during the period / year	(2,772)	(4,645)	(34,532)
Translation difference	-	4	17
Balance at end of period / year	129,037	138,860	118,289

Recovered/released during the period/year includes recovery of reserved interest for 30 June 2020 at RO 379 thousands (30 June 2019 – RO 851 thousands and 31 Dec 2019 – RO 1.6 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 interim condensed statement of comprehensive income.

As of 30 June 2020 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 168 million (30 June 2019 – RO 157 million and 31 Dec 2019 – RO 144 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)
6 FINANCIAL INVESTMENTS

	Carrying value 30/06/2020 RO'000	Carrying value 30/06/2019 RO'000	Carrying value 31/12/2019 RO'000
Investment measured at FVPL			
Quoted investments- Oman			
Banking and investment sector	4,519	4,779	4,660
	4,519	4,779	4,660
Quoted investments- Foreign			
Banking and investment sector	357	406	392
	357	406	392
Unquoted investments			
Banking and investment sector	2,344	2,253	2,522
Service sector	-	275	-
	2,344	2,528	2,522
Total FVPL	7,220	7,713	7,574
Investment measured at FVOCI			
Quoted investments- Oman			
Manufacturing sector	1,130	1,829	1,273
Service sector	10,977	17,201	11,295
	12,107	19,030	12,568
Quoted investments- Foreign			
Banking and investment sector	16,061	7,262	19,734
	16,061	7,262	19,734
Unquoted investments			
Banking and investment sector	288	295	295
Service sector	22	36	36
	310	331	331
Total FVOCI – Equity instruments	28,478	26,623	32,633
Debt instruments measured at FVOCI			
Quoted investments- Oman			
Government Development Bonds	3,603	3,623	3,969
Banking and investment sector	550	-	680
Total FVOCI – Debt instruments	4,153	3,623	4,649
Total FVOCI	32,631	30,246	37,282

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)
6 FINANCIAL INVESTMENTS (continued)

Investment measured at amortised cost	Carrying value	Carrying value	Carrying value
Quoted investments- Oman	30/06/2020	30/06/2019	31/12/2019
	RO'000	RO'000	RO'000
Government Development Bonds	246,852	204,219	217,204
Government Sukuk	10,481	3,000	10,476
Banking and investment sector	550	4,347	550
Manufacturing sector	5,775	5,775	5,775
Service sector	9,746	9,344	9,348
	273,404	226,685	243,353
Quoted investments- Foreign			
Government Development Bonds	4,794	4,900	4,847
	4,794	4,900	4,847
Total amortised cost	278,198	231,585	248,200
Less: impairment	(457)	(615)	(507)
TOTAL FINANCIAL INVESTMENTS	317,592	268,929	292,549

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

	6 months ended 30/06/2020	6 months ended 30/06/2019	12 months ended 31/12/2019
	RO'000	RO'000	RO'000
Balance at the beginning of the period/year	507	591	591
(Released)/Provided during the year	(50)	24	(84)
Balance at the end of the period/year	457	615	507

Details of significant investments

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

	Bank's portfolio %	Carrying value RO'000
30 June 2020		
Government Development Bonds and sukuks	82.0%	260,936
30 June 2019		
Government Development Bonds and sukuks	78.3%	188,891
31 Dec 2019		
Government Development Bonds and sukuks	79.0%	231,651

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

7 PREMISES AND EQUIPMENT

	<i>Freehold land and buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Right to use assets RO'000</i>	<i>Total RO'000</i>
Reconciliation of carrying amount:					
Balance as at 1 January 2020, net of accumulated depreciation	48,564	13,707	1,017	3,406	66,694
Additions	17	466	815	1,269	2,567
Disposals	-	(2)	-	-	(2)
Transfers	231	508	(739)	-	-
Translation difference	(2)	-	-	-	(2)
Depreciation	(712)	(1,560)	-	(974)	(3,246)
Balance at 30 Jun 2020, net of accumulated depreciation	48,098	13,119	1,093	3,701	66,011
At cost	65,404	44,378	1,093	6,879	117,754
Accumulated depreciation	(17,306)	(31,259)	-	(3,178)	(51,743)
Net carrying value at 30 Jun 2020	48,098	13,119	1,093	3,701	66,011
Reconciliation of carrying amount:					
Balance as at 1 January 2019, net of accumulated depreciation	50,054	12,040	2,266	-	64,360
Additions	13	544	1,005	-	1,562
Disposals	-	(23)	-	-	(23)
Transfers	-	802	(802)	-	-
Translation difference	8	-	-	-	8
Depreciation	(906)	(1,339)	-	-	(2,245)
Balance at 30 June 2019, net of accumulated depreciation	49,169	12,024	2,469	-	63,662
At cost	65,164	41,957	2,469	-	109,590
Accumulated depreciation	(15,995)	(29,933)	-	-	(45,928)
Net carrying value at 30 June 2019	49,169	12,024	2,469	-	63,662
Net carrying value at 31 December 2019	48,562	13,709	1,017	3,406	66,694

Set out below are the carrying amount of lease liabilities (included under other liabilities and the movement during the period.

Particular	30/06/2020 RO'000	30/06/2019 RO'000	31/12/2019 RO'000
Balance at beginning of period/year	2,793	-	-
Impact of adopting IFRS 16	908	-	3,406
Restated opening balance under IFRS 16	3,701	-	3,406
Payments during period/year	(960)	-	(613)
Balance at end of period/year	2,741	-	2,793

8 OTHER ASSETS

	30/06/2020 RO'000	30/06/2019 RO'000	31/12/2019 RO'000
Interest receivable and others	28,298	25,341	23,195
Positive fair value of derivatives (note 29)	5,988	1,801	2,644
Customers' indebtedness for acceptances (note 12)	23,663	22,533	14,907
Deferred tax (note 13)	509	-	-
	58,458	49,675	40,746

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

9 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	<i>30/06/2020</i> <i>RO'000</i>	<i>30/06/2019</i> <i>RO'000</i>	<i>31/12/2019</i> <i>RO'000</i>
Borrowings	234,596	150,507	280,280
Other balances	7,005	4,094	3,506
	241,601	154,601	283,786

10 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	<i>30/06/2020</i> <i>RO'000</i>	<i>30/06/2019</i> <i>RO'000</i>	<i>31/12/2019</i> <i>RO'000</i>
Current accounts	936,742	926,846	879,011
Savings accounts	629,091	585,827	599,098
Term deposits	1,065,312	976,392	1,053,409
	2,631,145	2,489,065	2,531,518

11 EURO MEDIUM TERM NOTES

The bank has established Euro medium term notes programme for USD 1,500 million. These Bonds are listed in the Irish Stock Exchange.

As at reporting period end, the bank had the following issuances:

	<i>30/06/2020</i> <i>RO'000</i>	<i>30/06/2019</i> <i>RO'000</i>	<i>31/12/2019</i> <i>RO'000</i>
Issuance made in year 2018 maturing in 2023	192,500	307,690	192,500

The carrying amount of EMTN was stated after taking into account the amount of MTM value of the fair value hedge (note 29), as applicable.

12 OTHER LIABILITIES

	<i>30/06/2020</i> <i>RO'000</i>	<i>30/06/2019</i> <i>RO'000</i>	<i>31/12/2019</i> <i>RO'000</i>
Interest payable and other accruals	46,166	59,817	44,367
Lease liabilities for right to use assets (Note 7)	2,741	-	2,793
Allowances for credit losses for loan Commitments and Financial Guarantees	5,656	7,786	6,026
Negative fair value of derivatives (note 29)	4,990	1,560	1,394
Liabilities under acceptances (note 8)	23,663	22,533	14,907
Deferred Tax Liability(Note 12)	-	93	332
	83,216	91,789	69,819

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

	<i>6 months</i> <i>Ended</i> <i>30/06/2020</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2019</i> <i>RO'000</i>	<i>12 months</i> <i>ended</i> <i>31/12/2019</i> <i>RO'000</i>
Balance at beginning of period / year	6,026	9,223	9,223
Provided/(released) during the period / year	(370)	(1,437)	(3,197)
Balance at end of period / year	5,656	7,786	6,026

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

13 TAXATION

	30/06/2020	30/06/2019	31/12/2019
	RO'000	RO'000	RO'000
Statement of comprehensive income			
Current tax expense for the period/year	2,971	3,854	4,783
Deferred tax (income)/ expenses	(234)	716	740
	2,737	4,570	5,523

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

- Sultanate of Oman: 15% of taxable income
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

Set out below is reconciliation between incomes tax calculated on accounting profit with income tax expense for the period:

	30/06/2020	30/06/2019	31/12/2019
	RO'000	RO'000	RO'000
Accounting profit	17,762	29,851	56,954
Tax at applicable rate	2,664	4,478	8,543
Non-deductible expenses	413	358	705
Tax exempt revenues	(357)	(440)	(497)
Tax allowance related to previous years	-	-	(3,563)
Others	251	(542)	(405)
	2,971	3,854	4,783

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

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 2017.

	30/06/2020	30/06/2019	31/12/2019
	RO'000	RO'000	RO'000
Tax liability			
Income tax and other taxes – Current period/year	2,971	3,854	4,783
Income tax and other taxes – Prior years	6,127	8,515	8,438
	9,098	12,369	13,221

	30/06/2020	30/06/2019	31/12/2019
	RO'000	RO'000	RO'000
Recognised deferred tax assets / (liabilities)			
Deferred tax assets are attributable to the following:			
Provisions	244	734	10
FVOCI	265	(827)	(342)
	509	(93)	(332)

	30/06/2020	30/06/2019	31/12/2019
	RO'000	RO'000	RO'000
Movement of deferred tax asset/ (liability)			
Balance at the beginning of the year	(332)	734	734
Charge /(reversal) during the period/year	234	(716)	(740)
Tax effect of movement in FVOCI investments	607	(111)	(326)
	509	(93)	(332)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

14 OTHER NON-DISTRIBUTABLE RESERVES

	<i>FVOCI reserve RO '000</i>	<i>Revaluation reserve RO '000</i>	<i>Impairment Reserve RO '000</i>	<i>Total RO '000</i>
At 1 January 2020	(5,825)	4,385	5,061	3,621
Net movement on FVOCI	(6,013)		-	(6,013)
Tax effect of net losses on FVOCI	609	-	-	609
Transfer to retain earnings	-	-	7,338	7,338
At 30 June 2020	(11,229)	4,385	12,399	5,555
At 30 June 2019	(7,371)	4,385	-	(2,986)
At 31 December 2019	(5,825)	4,385	5,061	3,621

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.
- (ii) 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.

15 TIER 1 PERPETUAL BOND

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

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 18 November 2020 (the "First Call Date") or on any interest payment date thereafter 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% 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. Interest is 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).

16 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/06/2020 RO'000</i>	<i>30/06/2019 RO'000</i>	<i>31/12/2019 RO'000</i>
Guarantees	334,454	379,725	347,599
Documentary letters of credit	55,250	121,342	128,168
Undrawn commitment to lend	198,571	212,711	301,952
	588,275	713,778	777,719

(i) The allowances for credit losses for commitments and financial guarantees amounts to RO 5.66 million (30 June 2019 – RO 7.78 million and 31 December 2019 – RO 6.03 million) and is included under note 12.

(ii) Contingent liabilities include RO 8.69 million (30 June 2019 – RO 1.57 million and 31 December 2019 – RO 6.95 million) relating to non-performing loans.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

17 INTEREST INCOME

	6 months ended 30/06/2020 RO'000	6 months ended 30/06/2019 RO'000	3 months ended 30/06/2020 RO'000	3 months ended 30/06/2019 RO'000
Interest from Loans & advances	72,757	73,123	36,614	36,658
Interest from banks	1,552	2,672	483	1,347
Investments	7,390	5,213	3,984	2,815
	81,699	81,008	40,081	40,820

18 INTEREST EXPENSE

	6 months ended 30/06/2020 RO'000	6 months ended 30/06/2019 RO'000	3 months ended 30/06/2020 RO'000	3 months ended 30/06/2019 RO'000
Interest to customer deposits	27,176	23,467	13,783	11,722
Interest to banks	5,751	4,966	2,696	2,559
Euro medium term notes	5,640	7,908	2,809	4,069
	38,567	36,341	19,288	18,350

19 OTHER OPERATING INCOME

	6 months ended 30/06/2020 RO'000	6 months ended 30/06/2019 RO'000	3 months ended 30/06/2020 RO'000	3 months ended 30/06/2019 RO'000
Net gains from foreign exchange dealings	3,936	3,276	1,808	1,614
Fees and commissions	6,494	10,370	2,548	5,354
(Loss)/Income on trading investments	(371)	22	380	110
Dividend income	1,488	1,158	45	58
Service charges	2,081	2,629	791	1,279
Miscellaneous income	619	624	286	308
	14,247	18,079	5,858	8,723

20 OTHER OPERATING EXPENSES

	6 months ended 30/06/2020 RO'000	6 months ended 30/06/2019 RO'000	3 months ended 30/06/2020 RO'000	3 months ended 30/06/2019 RO'000
Establishment costs	2,057	3,014	949	1,526
Operating and administration expenses	7,478	6,426	3,937	3,149
Directors remuneration and sitting fees	141	111	69	57
	9,676	9,551	4,955	4,732

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)
21 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS
21.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2020:
Impairment charge and provision held as of 30 June 2020
Amounts in RO'000

	As per CBO Norms	As per IFRS 9	Difference
Impairment Loss charged to profit and loss	-	9,682	NA
Provisions required as per CBO norms/ held as per IFRS 9	147,733	135,270	(12,463)
Gross non-performing loan ratio (percentage)	-	5.69	5.69
Net non-performing loan ratio (percentage)	-	5.24	5.24

Mapping of IFRS 9 and CBO norms
Amounts in RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held 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	2,247,980	28,291	11,263	17,028	2,236,717	
	Stage 2	147,283	5,076	9,108	(4,032)	138,175	
	Stage 3				-	-	
Subtotal		2,395,263	33,367	20,371	12,996	2,374,892	-
Special Mention	Stage 1				-	-	
	Stage 2	391,555	3,947	10,359	(6,412)	381,196	
	Stage 3				-	-	
Subtotal		391,555	3,947	10,359	(6,412)	381,196	-
Substandard	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	26,622	7,902	9,469	(1,206)	17,153	361
Subtotal		26,622	7,902	9,469	(1,206)	17,153	361
Doubtful	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	24,112	8,632	13,067	(3,743)	11,045	692
Subtotal		24,112	8,632	13,067	(3,743)	11,045	692
Loss	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	117,477	79,770	75,771	17,061	41,706	13,062
Subtotal		117,477	79,770	75,771	17,061	41,706	13,062
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	627,322	-	1,486	(1,486)	625,836	
	Stage 2	144,218	-	4,747	(4,747)	139,471	
	Stage 3				-	-	
Subtotal		771,540	-	6,233	(6,233)	765,307	-
Total	Stage 1	2,875,302	28,291	12,749	15,542	2,862,553	-
	Stage 2	683,056	9,023	24,214	(15,191)	658,842	-
	Stage 3	168,211	96,304	98,307	12,112	69,904	14,115
	Total	3,726,569	133,618	135,270	12,463	3,591,299	14,115

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

21 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

21.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2019:

Impairment charge and provision held as of 30 June 2019

Amounts in RO'000

	As per CBO Norms	As per IFRS 9	Difference
Impairment Loss charged to profit and loss	6,395	6,395	-
Provisions required as per CBO norms/ held as per IFRS 9	125,592	147,643	21,664
Gross non-performing loan ratio (percentage)	3.53	3.53	-
Net non-performing loan ratio (percentage)	1.24	0.96	(0.28)

Mapping of IFRS 9 and CBO norms

Amounts in RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held 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	2,294,324	32,466	13,925	18,541	2,280,399	
	Stage 2	371,838	4,222	11,354	(7,132)	360,484	
	Stage 3				-	-	
	Subtotal	2,666,162	36,688	25,279	11,409	2,640,883	-
Special Mention	Stage 1				-	-	
	Stage 2	134,804	1,126	15,256	(14,130)	119,548	
	Stage 3				-	-	
	Subtotal	134,804	1,126	15,256	(14,130)	119,548	-
Substandard	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	15,616	3,835	4,258	(169)	11,358	254
	Subtotal	15,616	3,835	4,258	(169)	11,358	254
Doubtful	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	14,868	5,972	6,692	(230)	8,176	490
	Subtotal	14,868	5,972	6,692	(230)	8,176	490
Loss	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	121,960	77,970	87,370	9,271	34,590	18,671
	Subtotal	121,960	77,970	87,370	9,271	34,590	18,671
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	696,751		1,920	(1,920)	694,831	
	Stage 2	140,420		6,481	(6,481)	133,939	
	Stage 3				-	-	
	Subtotal	837,171	-	8,401	(8,401)	828,770	-
Total	Stage 1	2,991,075	32,466	15,845	16,621	2,975,230	-
	Stage 2	647,062	5,348	33,091	(27,743)	613,971	-
	Stage 3	152,444	87,777	98,320	8,872	54,124	19,415
	Total	3,790,581	125,591	147,256	(2,250)	3,643,325	19,415

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)
21 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)
21.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2020:
Restructured loans
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	41,950	732	5,152	(4,420)	36,798	-
	Stage 3	-	-	-	-	-	-
Subtotal		41,950	732	5,152	(4,420)	36,798	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	37,911	18,311	17,637	3,044	20,274	2,370
Sub total		37,911	18,311	17,637	3,044	20,274	2,370
Total	Stage 1	-	-	-	-	-	-
	Stage 2	41,950	732	5,152	(4,420)	36,798	-
	Stage 3	37,911	18,311	17,637	3,044	20,274	2,370
	Total	79,861	19,043	22,789	(1,376)	57,072	2,370

21.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2019:
Restructured loans
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	77,559	1,001	580	421	76,979	-
	Stage 2	25,022	1,022	6,947	(5,925)	18,075	-
	Stage 3	-	-	-	-	-	-
Subtotal		102,581	2,023	7,527	(5,504)	95,054	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,334	10,568	13,258	455	16,076	3,145
Sub total		29,334	10,568	13,258	455	16,076	3,145
Total	Stage 1	77,559	1,001	580	421	76,979	-
	Stage 2	25,022	1,022	6,947	(5,925)	18,075	-
	Stage 3	29,334	10,568	13,258	455	16,076	3,145
	Total	131,915	12,591	20,785	(5,049)	111,130	3,145

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

21 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

21.3 Movement in Expected credit losses (ECL) as at 30 June 2020

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>
Exposure subject to ECL				
- Loans and Advances to Customers	2,247,980	538,838	168,211	2,955,029
- Investment Securities (Debt)	318,049	-	-	318,049
- Loan Commitments and Financial Guarantees	444,057	144,218		588,275
- Due from Banks, Central Banks and Other Financial Assets	121,279	-	-	121,279
	3,131,365	683,056	168,211	3,982,632
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	1,125	(6,862)	5,737	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments and Financial Guarantees	277	(277)	-	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	1,402	(7,139)	5,737	-
Charge for the Period (net)				
- Loans and Advances to Customers	(2,257)	8,884	6,893	13,520
- Investment Securities (Debt)	(50)	-	-	(50)
- Loan Commitments and Financial Guarantees	(482)	112	-	(370)
- Due from Banks, Central Banks and Other Financial Assets	(351)	-	-	(351)
	(3,140)	8,996	6,893	12,749
Write off for the period				
- Loans and Advances to Customers	-	-	(2,772)	(2,772)
	-	-	(2,772)	(2,772)
Closing Balance - as at 30 June 2020				
- Loans and Advances to Customers	11,263	19,467	98,307	129,037
- Investment Securities (Debt)	457	-	-	457
- Loan Commitments and Financial Guarantees	909	4,747	-	5,656
- Due from Banks, Central Banks and Other Financial Assets	120	-	-	120
	12,749	24,214	98,307	135,270

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

21 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

21.3 Movement in Expected credit losses (ECL) as at 30 June 2019

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Exposure subject to ECL				
- Loans and Advances to Customers	2,294,321	506,642	152,444	2,953,407
- Investment Securities (Debt)	268,929			268,929
- Loan Commitments and Financial Guarantees	573,358	140,420		713,778
- Due from Banks, Central Banks and Other Financial Assets	153,007			153,007
	3,289,615	647,062	152,444	4,089,121
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	1,235	(4,234)	2,999	-
- Investment Securities (Debt)				-
- Loan Commitments and Financial Guarantees	495	(495)		-
- Due from Banks, Central Banks and Other Financial Assets				-
	1,730	(4,729)	2,999	-
Charge for the Period (net)				
- Loans and Advances to Customers	(1,847)	4,976	9,998	13,127
- Investment Securities (Debt)	24	-	-	24
- Loan Commitments and Financial Guarantees	(622)	(815)	-	(1,437)
- Due from Banks, Central Banks and Other Financial Assets	7	-	-	7
	(2,438)	4,161	9,998	11,721
Write off for the period				
- Loans and Advances to Customers	-	-	(4,645)	(4,645)
	-	-	(4,645)	(4,645)
Closing Balance - as at 30 June 2019				
- Loans and Advances to Customers	13,930	26,610	98,320	138,860
- Investment Securities (Debt)	615	-	-	615
- Loan Commitments and Financial Guarantees	1,305	6,481	-	7,786
- Due from Banks, Central Banks and Other Financial Assets	386	-	-	386
	16,236	33,091	98,320	147,647

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

21 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

21.4 Movement in impairment credit losses for the period ended 30 June 2020

	6 months ended 30/06/2020 RO'000	6 months ended 30/06/2019 RO'000	3 months ended 30/06/2020 RO'000	3 months ended 30/06/2019 RO'000
(Impairment)/reversal of impairment for credit losses:				
Due from Banks	351	(7)	305	(21)
Loans and advances to customers	(12,121)	(9,734)	(7,190)	4,617
Investments	50	(23)	19	(16)
Financial guarantees	370	1,437	683	1,077
Total	(11,350)	(8,327)	(6,183)	(3,577)
Recoveries and releases from provision for credit losses	1,289	1,932	69	449
Recoveries and releases from loans and advances written off	693	2,146	361	877
Total	1,982	4,078	431	1,326
Net Impairment losses	(9,368)	(4,249)	(5,752)	(2,251)

22 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	6 months ended 30/06/2020 RO'000	6 months ended 30/06/2019 RO'000	3 months ended 30/06/2020 RO'000	3 months ended 30/06/2019 RO'000
Profit after tax (RO'000s)	15,025	25,281	5,247	12,824
Weighted average number of shares outstanding during the year (in '000s)	1,625,950	1,625,950	1,625,950	1,625,950
Earnings per share (RO)	0.006	0.013	0.000	0.005

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.

23 ASSET LIABILITY MISMATCH

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

	Assets RO'000	Equity, subordinated funds and liabilities RO'000	Mismatch RO'000
Maturities as at 30 June 2020			
0 - 3 month	785,345	802,315	(16,970)
3 - 12 month	364,671	867,986	(503,315)
1 - 5 years	811,157	972,027	(160,870)
More than 5 years	1,727,384	1,046,229	681,155
Total	3,688,557	3,688,557	-
Maturities as at 30 June 2019			
0 - 3 month	772,438	842,379	(69,941)
3 - 12 month	335,600	901,673	(566,073)
1 - 5 years	746,872	824,775	(77,903)
More than 5 years	1,729,285	1,015,368	713,917
Total	3,584,195	3,584,195	-
Maturities as at 31 Dec 2019			
0 - 3 month	795,496	777,693	17,803
3 - 12 month	321,653	838,094	(516,441)
1 - 5 years	802,605	979,048	(176,443)
More than 5 years	1,724,940	1,049,859	675,081
Total	3,644,694	3,644,694	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

24 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. The aggregate amounts of balances with such related parties are as follows

	30/06/2020			31/12/2019		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	113,851	113,851	-	139,556	139,556
Customers' deposits	79,400	78,746	158,146	55,522	61,529	117,051
Due from banks	270	-	270	258	9,625	9,883
Due to banks	159	-	159	358	-	358
Letters of credit, guarantees and acceptances	911	33,264	34,175	854	37,113	37,967
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Investments	1,971	-	1,971	2,124	-	2,124

The statement of comprehensive income includes the following amounts in relation to transactions with related parties:

	30/06/2020			30/06/2019		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	17	3,830	3,847	24	3,407	3,431
Commission income	1	116	117	2	963	965
Interest expense	2,010	824	2,834	847	563	1,410
Other expenses	-	298	298	-	186	186
Senior management compensation:				6 months ended		6 months ended
Salaries and other short term benefits				30/06/2020		30/06/2019
				RO'000		RO'000
- Fixed				1,434		1,365
- Discretionary				1,017		1,289
				2,451		2,654

DRAFT

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

25 SHAREHOLDERS

As of 30 June 2020, the shareholders of the bank who own 10% or more of the bank's shares:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar	567,453	34.90%
Suhail Bahwan Group (Holdings) LLC	239,734	14.74%
Civil Service Employees Pension Fund	183,966	11.31%

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

26 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the bank for International Settlement is as follows:

	<i>30/06/2020</i>	<i>30/06/2019</i>	<i>31/12/2019</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Capital base			
Common equity Tier 1	383,363	388,008	399,336
Additional Tier 1 - capital	115,500	115,500	115,500
Tier 2 capital	23,625	36,346	29,072
Total capital base	522,488	539,854	543,908
Risk weighted assets			
Credit risk	3,027,047	3,022,139	2,988,435
Operational risk	243,431	248,285	243,431
Market risk	88,148	68,184	47,698
Total risk weighted assets	3,358,626	3,338,608	3,279,564
Common Equity Tier 1 Ratio	11.4%	11.6%	12.2%
Tier 1 Ratio	14.9%	15.1%	15.7%
Risk asset ratio (Basel II norms)	15.6%	16.2%	16.6%

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

27 SEGMENT REPORTING

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 net worth 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. It also includes international operations of UAE, Egypt and Islamic banking which offers products as per Sharia principles.
- 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:

	<i>Retail banking</i> RO'000	<i>Wholesale banking</i> RO'000	<i>Commercial banking</i> RO'000	<i>Funding center</i> RO'000	<i>Total</i> RO'000
30 June 2020					
Operating income/(loss)	28,866	29,263	6,179	(4,875)	59,433
Net profit/(loss)	5,378	19,277	(2,201)	(7,429)	15,025
Total assets	1,281,077	1,597,131	389,926	420,423	3,688,557
30 June 2019					
Operating income/(loss)	30,888	28,737	7,812	(3,089)	64,348
Net profit/(loss)	14,301	20,279	(1,749)	(7,550)	25,281
Total assets	1,296,969	1,282,127	380,037	625,062	3,584,195

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

27 SEGMENT REPORTING (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 on an arm's length basis. Segment information by geography is as follows:

	<i>Oman</i>	<i>UAE</i>	<i>Egypt</i>	<i>Total</i>
For the period ended 30 June 2020	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income and Income from Islamic financing and Investment activities	44,040	1,041	105	45,186
Other operating income	13,860	372	15	14,247
Operating income	57,900	1,413	120	59,433
Operating expenses	(30,629)	(1,525)	(149)	(32,303)
Operating profit	27,271	(112)	(29)	27,130
Impairment losses (net) and taxation	(10,621)	(1,483)	(1)	(12,105)
Segment profit for the period	16,650	(1,595)	(30)	15,025
Other information				
Segment assets	3,561,428	108,115	19,014	3,688,557
Segment capital expenses	1,266	32	-	1,298

	<i>Oman</i>	<i>UAE</i>	<i>Egypt</i>	<i>Total</i>
For the period ended 30 June 2019	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income and Income from Islamic financing and Investment activities	45,033	978	258	46,269
Other operating income	17,303	770	6	18,079
Operating income	62,336	1,748	264	64,348
Operating expenses	(28,128)	(1,916)	(204)	(30,248)
Operating profit	34,208	(168)	60	34,100
Impairment losses (net) and taxation	(5,265)	(3,547)	(7)	(8,819)
Segment profit for the period	28,943	(3,715)	53	25,281
Other information				
Segment assets	3,466,753	97,912	19,530	3,584,195
Segment capital expenses	1,483	77	2	1,562

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2020 (unaudited)

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
30 June 2020			
Investment measured at FVTPL			
Quoted equities	4,876	-	4,876
Unquoted equities	-	2,344	2,344
Total	4,876	2,344	7,220
Investment measured at FVOCI			
Quoted equities	32,321	-	32,321
Unquoted equities	-	311	311
Total	32,321	311	32,632
TOTAL FINANCIAL INVESTMENTS	37,197	2,654	39,851
30 June 2019			
Investment measured at FVTPL			
Quoted equities	5,185	-	5,185
Unquoted equities	-	2,528	2,528
Total	5,185	2,528	7,713
Investment measured at FVOCI			
Quoted equities	29,915	-	29,915
Unquoted equities	-	331	331
Total	29,915	331	30,246
Total financial assets	35,100	2,859	37,959
31 Dec 2019			
Investment measured at FVTPL			
Quoted equities	5,052	-	5,052
Unquoted equities	-	2,522	2,522
Total	5,052	2,522	7,574
Investment measured at FVOCI			
Quoted equities	36,951	-	36,951
Unquoted equities	-	331	331
Total	36,951	331	37,282
Total financial assets	42,003	2,853	44,856

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

28 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 re-priced 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 29).

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

29 DERIVATIVES

	Positive fair value (Note 8) RO'000	Negative fair value (Note 10) RO'000	Notional amount total RO'000	Notional amounts by term to maturity		
				Notional amounts by term to maturity		
				Within 3 months RO'000	3 – 12 months RO'000	Above 1 Year RO'000
30 June 2020						
Interest rate swaps	4,133	(4,133)	190,341	12,341	43,028	134,972
Forward foreign exchange purchase contracts	9	(697)	200,322	98,002	30,509	71,811
Forward foreign exchange sales contracts	2,245	(243)	200,322	96,182	30,155	73,985
Total	6,387	(5,073)	590,985	206,525	103,692	280,768
30 June 2019						
Fair value hedge	-	(80)	115,500	-	115,500	-
Interest rate swaps	335	(335)	37,354	6,998	12,280	18,076
Forward purchase contracts	45	(152)	174,167	116,029	50,152	7,986
Forward sales contracts	737	(57)	174,167	115,706	49,885	8,576
Total	1,117	(624)	501,188	238,733	227,817	34,638
31 December 2019						
Interest rate swaps	1,179	(1,179)	131,301	13,132	55,181	62,988
Forward purchase contracts	372	(3)	242,030	57,789	53,092	131,149
Forward 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

Derivatives are valued at level 2 based on quoted forward rates.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

30 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, 2019.

	June 2020		June 2019	
	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000
High quality liquid assets				
Total High Quality Liquid Assets (HQLA)	-	537,004	-	493,665
Cash outflows				
Stable deposits	636,965	31,848	601,736	30,087
Less stable deposits	127,499	12,750	119,005	11,901
Retail deposits and deposits from small business customers	764,464	44,598	720,741	41,987
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,038,014	437,640	1,020,119	389,416
Additional requirements, of which				
Credit and liquidity facilities	71,283	7,128	32,973	3,297
Other contingent funding obligations	425,039	24,076	510,928	30,846
Total cash outflows	-	513,442		465,546
Cash inflows				
Inflows from fully performing exposures	335,233	226,833	331,430	241,707
Other cash inflows	16,621	16,621	9,877	9,877
Total cash inflows	351,854	243,454	341,307	251,584
Total high quality liquid assets		537,004		493,665
Total net cash outflows		269,988		213,962
Liquidity coverage ratio (%)		198.90		230.73

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)**31 ESTIMATES AND JUDGMENTS****IMPACT OF COVID-19**

The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

In addition, NBO's operations are partially concentrated in economies that are relatively dependent on the price of crude oil. As at the end of the financial reporting period, oil prices have witnessed unprecedented volatility. NBO is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

The uncertainties caused by COVID-19, and the volatility in oil prices have required to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 30 June 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

NBO also updated the relevant forward-looking information of the Bank's international operations with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective market in which it operates.

NBO has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors.

NBO has considered potential impacts of the current economic volatility in determination of the reported amounts of the financial and non-financial assets and these are considered to represent management's best assessment based on observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

The Bank has performed an assessment of oil prices volatility and COVID-19 in line with the available guidance of the Central Bank of Oman ('CBO') and IFRS, which has resulted in the following changes to the expected credit loss methodology and valuation estimates and judgments as at and for the period ended 30 June 2020:

a) Expected Credit Loss (ECL)

For the reporting period end 30 June 2020, the Bank has updated inputs and assumptions used for the determination of expected credit losses ("ECLs") in response to uncertainties caused by COVID 19 and oil prices volatility. ECLs were estimated based on a range of forecast economic conditions as at that date. Considering that the situation is fast evolving, the Bank has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

DRAFT

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2020 (unaudited)

31 ESTIMATES AND JUDGMENTS (Continued)

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The Bank has decided to take a simple average of three macro economic scenarios for the purpose of estimating expected credit loss.

- Macro-economic forecast as per our existing model.
- Macro-economic forecast based on the revised GDP growth forecast by IMF for the years 2020, 2021 and 2022 (SCENARIO 1)
- Macro-economic forecast by further stressing the GDP growth based on Brent oil price at \$35 per barrel (SCENARIO 2)

The assumptions include: oil prices will range bound between \$ 35 and\$ 77/bbl ; real GDP growth between -2.8% to 7.2% and real interest rates between 8.3% and 29.8% over the next 4 years. The aforementioned values of macro-economic factors have been derived by applying equal weightings of the three scenarios, respectively. As the COVID-19 situation continues to evolve, these estimates may be reassessed and adjusted in future as impacts on specific sectors become more certain.

In addition to the assumptions outlined above, the Bank continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors. CBO has extended FS submission date and the risk team is currently in the process of upgrading risk of customer as and when received.

b) Accounting for modified financing assets

The Company has allowed delayed repayments of certain SME customers for a period of six months in line with the CBO circular issued in March 2020, in which local banks in Sultanate of Oman have been encouraged to delay loan repayments for affected sectors. The modification loss on these loans were not considered material for the period

c) Liquidity risk management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and currently being evaluated, as Governments around the world reel in to provide relief and mitigate the adverse effects of the crisis. The key risk factors include:

- Sustained periods of low oil prices combined with drastically lower economic output will lead to constraints on the Banking sector's funding capabilities and liquidity management;
- Potential rise in the cost of funds due to reduced deposit inflows from the general public and government entities; and
- Weakened credit outlook will have a negative impact on lending, which will further contribute to a slowdown in economic growth.

d) Fair value measurement of financial instruments

The Bank's existing policy on fair value measurement of financial instruments is disclosed in note 33 to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019. Given the significant impact of the COVID-19 pandemic on the global financial markets, the bank is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.