

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2021 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021 (unaudited)

		<i>Audited</i>		
	30/06/2021	30/06/2020		
	RO'000	RO'000		
	<i>Notes</i>	<i>31/12/2020</i>		
		<i>RO'000</i>		
Assets				
Cash and balances with Central Banks	3	306,423	299,345	216,126
Due from banks and other money market placements (net)	4	86,592	121,159	94,716
Loans, advances and Islamic financing assets (net)	5	2,970,036	2,825,992	2,887,862
Financial investments	6	348,321	317,592	318,534
Property and equipment	7	60,963	64,364	62,568
Other assets	8	51,029	58,458	52,845
Total assets		3,823,364	3,686,910	3,632,651
Liabilities and equity				
Liabilities				
Due to banks and other money market deposits	9	337,895	241,601	288,723
Customers' deposits and unrestricted investment accounts	10	2,661,311	2,631,145	2,527,179
Euro medium term notes	11	192,500	192,500	192,500
Other liabilities	12	75,822	83,216	84,448
Taxation	13	10,490	9,098	9,568
Total liabilities		3,278,018	3,157,560	3,102,418
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 reserves	14	5,014	1,170	1,564
Retained earnings		173,574	161,422	161,911
Total equity attributable to the shareholders of the bank		429,846	413,850	414,733
Tier 1 perpetual bond	15	115,500	115,500	115,500
Total equity		545,346	529,350	530,233
Total liabilities and equity		3,823,364	3,686,910	3,632,651

The interim condensed financial statements were authorised for issue on 29th July 2021 in accordance with a resolution of the Board of Directors.

The attached notes 1 to 33 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period ended 30 June 2021 (unaudited)

	Notes	Six months ended		Three months ended	
		30 June		30 June	
		2021	2020	2021	2020
		RO'000	RO'000	RO'000	RO'000
Interest income	17	81,676	81,699	41,367	41,081
Interest expense	18	(38,676)	(38,567)	(19,520)	(19,288)
NET INTEREST INCOME		43,000	43,132	21,847	21,793
Income from Islamic financing and Investment activities		4,815	4,368	2,426	2,192
Unrestricted investment account holders' share of profit		(2,781)	(2,314)	(1,357)	(1,152)
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		2,034	2,054	1,069	1,040
NET INTEREST INCOME AND NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		45,034	45,186	22,916	22,833
Other operating income	19	17,284	14,247	8,262	5,858
OPERATING INCOME		62,318	59,433	31,178	28,691
Staff costs	20	(19,526)	(19,381)	(9,061)	(10,151)
Other operating expenses	21	(8,926)	(9,676)	(4,892)	(4,955)
Depreciation	7	(3,144)	(3,246)	(1,569)	(1,652)
TOTAL OPERATING EXPENSES		(31,596)	(32,303)	(15,522)	(16,758)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		30,722	27,130	15,656	11,933
TOTAL IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET)	22.4	(12,241)	(9,368)	(5,312)	(5,752)
PROFIT BEFORE TAX		18,481	17,762	10,344	6,181
Taxation	13	(2,834)	(2,737)	(1,591)	(934)
PROFIT FOR THE PERIOD		15,647	15,025	8,753	5,247
OTHER COMPREHENSIVE INCOME/(LOSS)					
Items that will not be reclassified subsequently to profit or loss					
Equity investments at FVOCI – net change in fair value		3,136	(5,651)	2,937	1,714
Tax effect of equity investments at FVOCI – net change in fair value		(232)	609	(183)	(291)
Items that will be reclassified subsequently to profit or loss					
Debt instruments at FVOCI – net change in fair value		151	(362)	68	836
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		3,055	(5,404)	2,822	2,259
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		18,702	9,621	11,575	7,506
Earnings per share:					
Basic and diluted, earnings for the period attributable to equity holders		0.007	0.006	0.003	0.000

The attached notes 1 to 33 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 30 June 2021 (unaudited)

	Notes	Six months ended	
		30 June	
		2021	2020
		RO'000	RO'000
Profit before taxation		18,481	17,762
Adjustments for:			
Depreciation	7	3,144	3,246
Provision for credit losses (net)		12,112	9,769
Provision for credit loss Bank loans/Investments (net)		129	(401)
Profit on sale of fixed assets		(787)	(5)
(Profit)/loss on sale of investments		(102)	371
Amortisation of Premium/discount (net)		(325)	(46)
Translation difference		-	(2)
Investment income		(1,082)	(1,488)
Operating profit before changes in operating assets and liabilities		31,570	29,206
Due from banks and other money market deposits		4,619	9,359
Due to banks and other money market placements		78,712	(13,477)
Loans and advances to customers		(94,286)	(34,204)
Other assets		1,816	(17,712)
Customer deposits		134,132	99,627
Other liabilities		(8,626)	13,397
Cash from operations activities		147,937	86,196
Tax paid		(1,942)	(7,091)
Net cash from operating activities		145,995	79,105
Investing activities			
Purchase of investments		(38,105)	(39,197)
Proceeds from sale of investments		11,955	8,100
Purchase of Property and equipment	7	(1,686)	(2,567)
Proceeds from sale of Property and equipment		934	7
Investment income	19	1,082	1,488
Net cash used in investing activities		(25,820)	(32,169)
Financing activities			
Payment of Dividends		-	(27,316)
Proceeds from tier 1 capital		115,500	-
Redemption of tier 1 capital		(115,500)	-
Interest on tier 1 perpetual bond		(3,842)	(4,548)
Net cash used in financing activities		(3,842)	(31,864)
Increase in cash and cash equivalents		116,333	15,072
Cash and cash equivalents at the beginning of the period		125,012	261,314
Cash and cash equivalents at the end of the period		241,345	276,386
Representing:			
Cash and balances with Central Bank	3	305,923	298,845
Due from Bank (maturing within 3 months)		73,117	95,942
Due to Bank (maturing within 3 months)		(137,695)	(118,401)
		241,345	276,386

The attached notes 1 to 33 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2021 (unaudited)

(RO'000)

	Share capital	Share premium	Legal reserve*	Other reserves	Proposed cash dividend	Retained earnings	Total	Tier 1 perpetual bond	Total equity
Balance at 1 January 2021	162,595	34,465	54,198	1,564	-	161,911	414,733	115,500	530,233
Net Profit for the year	-	-	-	-	-	15,647	15,647	-	15,647
Other comprehensive income for the period	-	-	-	3,055	-	-	3,055	-	3,055
Net gains on de-recognition of financial assets measured at FVOCI (net of tax)	-	-	-	-	-	253	253	-	253
Transfer to retained earnings	-	-	-	395	-	(395)	-	-	-
Payment of tier 1 perpetual bond	-	-	-	-	-	(3,842)	(3,842)	-	(3,842)
Balance at 30 June 2021	162,595	34,465	54,198	5,014	-	173,574	429,846	115,500	545,346
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 period	-	-	-	-	-	15,025	15,025	-	15,025
Other comprehensive income for the period	-	-	-	(5,404)	-	-	(5,404)	-	(5,404)
Net losses on de-recognition of financial assets measured at FVOCI (net of tax)	-	-	-	-	-	(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	1,170	-	161,422	413,850	115,500	529,350
Balance at 1 July 2020	162,595	34,465	54,198	1,170	-	161,422	413,850	115,500	529,350
Net profit for the period	-	-	-	-	-	3,123	3,123	-	3,123
Other comprehensive income for the period	-	-	-	2,693	-	-	2,693	-	2,693
Net losses on de-recognition of financial assets measured at FVOCI (net of tax)	-	-	-	-	-	(385)	(385)	-	(385)
Transfer to retained earnings	-	-	-	(480)	-	480	-	-	-
Payment of interest on tier 1 perpetual bond	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to impairment reserve	-	-	-	(1,819)	-	1,819	-	-	-
Balance at 31 December 2020	162,595	34,465	54,198	1,564	-	161,911	414,733	115,500	530,233

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

The attached notes 1 to 33 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 June 2021 (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 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 and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licenses 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 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 1,482 employees as of 30 June 2021 (30 June 2020 – 1,578 employees / 31 December 2020 - 1,573).

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 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 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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 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 32).

The following amendments to existing standards and framework have been applied by the Bank in preparation of these interim condensed financial statements. The adoption of the below did not result in changes to previously reported net profit or equity of the Bank.

<i>Description</i>	<i>Effective from</i>
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021

Interest Rate Benchmark Reform:

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Bank 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 Bank’s IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available;
- Accounting risk if the Bank’s hedging relationships fails and from unrepresentative income statement volatility as financial instruments transition to RFRs.

Interest Rate Benchmark Reform - Phase 2 amendments

Effective from 1 January 2021, the Bank has implemented Interest Rate Benchmark Reform - Phase 2 amendments which address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting.

The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. In addition it provides certain exceptions to hedge accounting requirements.

The Bank is in discussion with counterparties in relation to exposure to cash flow and fair value hedges and non-derivative financial assets and liabilities linked to Inter Bank Offered Rate maturing beyond the year 2021. Management is running a project on the Bank’s transition activities and preparedness for adopting alternate reference rates and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Cash	39,013	45,538	38,921
Treasury bills	135,000	48,000	20,000
Certificate of Deposit with Central Banks	-	11,006	3,669
Other balances with Central Banks	131,910	194,301	153,036
Cash and cash equivalents	305,923	298,845	215,626
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	306,423	299,345	216,126

- (i) At 30 June 2021, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (30 June 2020 – RO 500,000, 31 December 2020 – 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 2021 is 3% of total 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.

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

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Loans and advances to banks	11,165	17,903	14,823
Placements with bank	16,747	12,892	27,640
Demand balances	58,750	90,484	52,340
Due from banks and other money market placement	86,662	121,279	94,803
Less: allowance for credit losses	(70)	(120)	(87)
Net due from banks and other money market placement	86,592	121,159	94,716

The Bank's allowance for the credit losses on due from banks and other money market placements is set out as below:

	6 months ended	6 months ended	12 months ended
	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Balance at beginning of period / year	87	471	471
Released during the period / year	(17)	(351)	(384)
Balance at end of period / year	70	120	87

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

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

	30/06/2021	<i>30/06/2020</i>	<i>31/12/2020</i>
	RO'000	<i>RO'000</i>	<i>RO'000</i>
Overdrafts	94,918	98,236	93,793
Personal loans	1,384,298	1,362,451	1,396,881
Other loans	1,659,230	1,494,342	1,553,080
Gross loans, advances and financing activities for customers	3,138,446	2,955,029	3,043,754
Less: allowance for credit losses	(168,410)	(129,037)	(155,892)
Net loans and advances	2,970,036	2,825,992	2,887,862

Gross loans, advances and financing activities for customers include RO 142 million due from related parties at 30 June 2021 (30 June 2020 – RO 114 million, 31 December 2020 – RO 121 million).

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

	6 months ended	<i>6 month ended</i>	<i>12 months ended</i>
	30/06/2021	<i>30/06/2020</i>	<i>31/12/2020</i>
	RO'000	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	155,892	118,289	118,289
Provided during the period / year	17,670	15,188	46,403
Recovered/ released during the period / year	(1,681)	(1,668)	(3,328)
Written off during the period / year	(3,471)	(2,772)	(5,472)
Balance at end of period / year	168,410	129,037	155,892

Provided during the period/year includes contractual interest reserved for RO 3.64 million (30 June 2020 – RO 3.07 million and 31 December 2020 – RO 6.67 million).

Recovered/released during the period/year includes recovery of reserved interest at RO 0.7 million (30 June 2020 – RO 0.4 million and 31 December 2020 – RO 0.9 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 2021, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 174 million (30 June 2020 – RO 168 million and 31 December 2020 – RO 169 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

6 FINANCIAL INVESTMENTS

	<i>30/06/2021</i>	<i>30/06/2020</i>	<i>31/12/2020</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<i>Investments measured at Fair value through profit and loss (FVTPL)</i>			
Quoted investments-Oman	537	4,519	474
Quoted investments-Foreign	351	357	398
Unquoted investments	2,430	2,344	2,683
Total FVTPL	3,318	7,220	3,555
<i>Investments measured at Fair value through other comprehensive income (FVOCI)</i>			
FVOCI – Equity investments			
Quoted investments-Oman	15,612	12,107	14,526
Quoted investments-Foreign	19,722	16,061	18,218
Unquoted investments	324	310	324
Total FVOCI – equity instruments	35,658	28,478	33,068
FVOCI - Debt instruments			
Government development bonds-Oman	4,065	3,603	3,917
Total FVOCI – debt instruments	4,065	3,603	3,917
Total FVOCI	39,723	32,081	36,985
<i>Investments measured at amortised cost</i>			
Government development bonds-Oman	272,074	246,852	241,077
Government Sukuk-Oman	16,428	10,481	16,417
Quoted investments-Oman	17,242	16,621	16,077
Government development bonds-foreign	-	4,794	4,741
Total – amortised cost	305,744	278,748	278,312
Total financial investments	348,785	318,049	318,852
Less: Impairment	(464)	(457)	(318)
Total financial investments	348,321	317,592	318,534

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

	<i>30/06/2021</i>	<i>30/06/2020</i>	<i>31/12/2020</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	318	507	507
Provided/(released) during the period / year	146	(50)	(189)
Balance at end of period / year	464	457	318

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)

30 June 2021 (unaudited)

6 FINANCIAL INVESTMENTS (CONTINUED)

Details of significant investments

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

	<i>Bank's portfolio</i> %	<i>Carrying value</i> RO'000
30/06/2021	84%	292,567
Government Development Bonds-Oman		
30/06/2020	82%	260,936
Government Development Bonds-Oman		
31/12/2020	82%	261,411
Government Development Bonds-Oman		

The Bank received dividends of RO 1.08 million from its FVOCI equities for 30 June 2021, recorded as other operating income. (30 June 2020 – RO 1.49 million and 31 December 2020 – RO 1.61 million).

7 PROPERTY AND EQUIPMENT

	<i>Freehold land and buildings and leasehold improvements</i> RO'000	<i>Motor vehicles, furniture and equipment</i> RO'000	<i>Capital work in progress</i> RO'000	<i>Right to use assets</i> RO'000	<i>Total</i> RO'000
Reconciliation of carrying amount:					
Balance as at 1 January 2021, net of accumulated depreciation	45,852	12,330	1,240	3,146	62,568
Additions	15	362	900	409	1,686
Disposals	(122)	(5)	(20)	-	(147)
Transfers	22	724	(746)	-	-
Depreciation	(664)	(1,509)	-	(971)	(3,144)
Balance at 30 June 2021, net of accumulated depreciation	45,103	11,902	1,374	2,584	60,963
At cost	60,666	46,062	1,374	6,518	114,620
Accumulated depreciation	(15,563)	(34,160)	-	(3,934)	(53,657)
Net carrying value at 30 June 2021	45,103	11,902	1,374	2,584	60,963
Reconciliation of carrying amount:					
Balance as at 1 January 2020, net of accumulated depreciation	46,915	13,709	1,017	3,406	65,047
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 June 2020, net of accumulated depreciation	46,449	13,121	1,093	3,701	64,364
At cost	61,017	44,380	1,093	6,879	113,369
Accumulated depreciation	(14,568)	(31,259)	-	(3,178)	(49,005)
Net carrying value at 30 June 2020	46,449	13,121	1,093	3,701	64,364
Net carrying value at 31 December 2020	45,852	12,330	1,240	3,146	62,568

From 1 January 2020, the Bank elected to change the method of accounting for building classified as property and equipment from the revaluation model to the cost model 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 with no impact on the reported profits, for the corresponding quarter ended 30 June 2020. The resulting changes are reflected in the Bank's financial statements including the primary statements. For further details, please refer to note 2.7 of the annual financial statements for the year 2020.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

8 OTHER ASSETS

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Interest receivable and others	26,942	28,298	25,956
Positive fair value of derivatives (note 30)	4,344	5,988	4,525
Customers' indebtedness for acceptances (note 12)	19,743	23,663	22,364
Deferred tax asset (note 13)	-	509	-
	51,029	58,458	52,845

9 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Borrowings	333,327	234,596	282,217
Other balances	4,568	7,005	6,506
	337,895	241,601	288,723

Borrowings include RO 6.8 million borrowed under repurchased.

10 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Current accounts	1,051,488	936,742	862,055
Savings accounts	639,796	629,091	636,437
Term deposits	970,027	1,065,312	1,028,687
	2,661,311	2,631,145	2,527,179

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 and governed by English law. As at reporting date, the Bank has an issuance for RO 192.5 million (USD 500 million) (30 June 2020 – RO 192.5 million – USD 500 million and 31 December 2020 – RO 192.5 million – USD 500 million), maturing in Sep 2023.

12 OTHER LIABILITIES

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Interest payable and other accruals	47,044	46,166	53,200
Lease commitment	1,722	2,741	2,139
Allowances for credit losses for loan commitments and Financial guarantees (refer below)	3,356	5,656	2,850
Negative fair value of derivatives (note 30)	3,746	4,990	3,879
Liabilities under acceptances (note 8)	19,743	23,663	22,364
Deferred tax liability (note 13)	211	-	16
	75,822	83,216	84,448

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

	6 months ended	6 months ended	12 months ended
	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Balance at beginning of period / year	2,850	6,026	6,026
Provided / (released) during the period / year	506	(370)	(3,176)
Balance at end of period / year	3,356	5,656	2,850

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)
13 TAXATION

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Statement of comprehensive income			
Current tax expense for the period/year	2,870	2,971	3,700
Deferred tax	(36)	(234)	(40)
	2,834	2,737	3,660

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: 22.5% of taxable income

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

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Accounting profit	18,481	17,762	21,808
Tax at applicable rate	2,772	2,664	3,271
Non-deductible expenses	86	413	988
Tax exempt revenues	(146)	(357)	(1,506)
Others	158	251	947
Total	2,870	2,971	3,700

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 2020.

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Income tax liability			
Through comprehensive income	2,870	2,971	3,700
Through prior years	7,620	6,127	5,974
Through retained earnings	-	-	(106)
	10,490	9,098	9,568

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Recognised deferred tax (liability)/asset			
Deferred tax assets are attributable to the following:			
Deductible temporary differences relating to comprehensive income	86	244	50
Deductible temporary differences relating to other comprehensive income	(297)	265	(66)
	(211)	509	(16)

	30/06/2021	30/06/2020	31/12/2020
	RO'000	RO'000	RO'000
Movement of deferred tax (liability)/asset			
Balance at the beginning of the year	(16)	(332)	(332)
Charge during the period/year through profit and Loss	36	234	40
Tax effect of movement in FVOCI investments	(231)	607	276
	(211)	509	(16)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

14 OTHER RESERVES

	<i>FVOCI reserve RO '000</i>	<i>Impairment Reserve RO '000</i>	<i>Total RO '000</i>
At 1 January 2021	(9,016)	10,580	1,564
Net movement on FVOCI investments	3,287	-	3,287
Tax effect of investments at FVOCI – net change in fair value	(232)	-	(232)
Transfer to retained earnings – realised FVOCI	395	-	395
At 30 June 2021	(5,566)	10,580	5,014
At 30 June 2020	(11,229)	12,399	1,170
At 31 December 2020	(9,016)	10,580	1,564

- (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.

15 TIER 1 PERPETUAL BOND

The bank has following Perpetual Tier 1 Capital Securities (the “Tier 1 Securities”). 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 subject to the prior consent of the Central Bank of Oman.

Issuance Month/Year	Issued Amount	Coupon Rate
Apr 2021	USD 300 million (OMR 115.5 million)	Fixed interest rate of 8% with a reset after 5 years

These securities form part of Tier 1 Capital of the bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

The bank has exercised its option to call back the following notes in May 2021 and as a result these have been repaid in full.

Issuance Month/Year	Issued Amount	Coupon Rate
Nov 2015	USD 300 million (OMR 115.5 million)	Fixed interest rate of 6.625% with a reset after 5 years

16 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/06/2021 RO'000</i>	<i>30/06/2020 RO'000</i>	<i>31/12/2020 RO'000</i>
Guarantees	276,936	334,454	281,967
Documentary letters of credit	50,384	55,250	38,940
Undrawn commitment to lend	179,689	198,571	176,623
	507,009	588,275	497,530

- (i) The allowances for credit losses for commitments and financial guarantees amounts to RO 3.4 million (30 June 2020 – RO 5.7 million and December 2020 – 2.9 million) and is included under note 12.

- (ii) Guarantees include RO 5.93 million (30 June 2020 – RO 8.69 million and December 2020 - 6.95 million) relating to non-performing loans.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

17 INTEREST INCOME

	6 months ended 30/06/2021 RO'000	6 months ended 30/06/2020 RO'000	3 months ended 30/06/2021 RO'000	3 months ended 30/06/2020 RO'000
Interest from Loans and advances	72,923	72,757	36,799	36,614
Interest from banks	296	1,552	147	483
Interest from investments	8,457	7,390	4,421	3,984
	81,676	81,699	41,367	41,081

18 INTEREST EXPENSE

	6 months ended 30/06/2021 RO'000	6 months ended 30/06/2020 RO'000	3 months ended 30/06/2021 RO'000	3 months ended 30/06/2020 RO'000
Interest to customer deposits	28,589	27,176	14,530	13,783
Interest to banks	4,446	5,751	2,139	2,696
Interest to EMTN	5,641	5,640	2,851	2,809
	38,676	38,567	19,520	19,288

19 OTHER OPERATING INCOME

	6 months ended 30/06/2021 RO'000	6 months ended 30/06/2020 RO'000	3 months ended 30/06/2021 RO'000	3 months ended 30/06/2020 RO'000
Net gains from foreign exchange dealings	3,054	3,936	1,505	1,808
Fees and commissions	10,187	6,494	4,688	2,548
Profit/(Loss) on investments at FVTPL	102	(371)	132	380
Dividend income	1,082	1,488	198	45
Other Income	2,859	2,700	1,739	1,077
	17,284	14,247	8,262	5,858

20 STAFF COSTS

	6 months ended 30/06/2021 RO'000	6 months ended 30/06/2020 RO'000	3 months ended 30/06/2021 RO'000	3 months ended 30/06/2020 RO'000
Employees' salaries	14,225	14,859	6,971	7,462
Contribution to social insurance schemes	1,279	1,205	632	597
Other staff costs	4,022	3,317	1,458	2,092
	19,526	19,381	9,061	10,151

21 OTHER OPERATING EXPENSES

	6 months ended 30/06/2021 RO'000	6 months ended 30/06/2020 RO'000	3 months ended 30/06/2021 RO'000	3 months ended 30/06/2020 RO'000
Establishment costs	1,963	2,057	1,001	949
Operating and administration expenses	6,672	7,478	3,724	3,937
Directors remuneration and sitting fees	291	141	167	69
	8,926	9,676	4,892	4,955

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

22 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

22.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2021:

Impairment charge and provision held as of 30 June 2021

Amounts in RO'000

	As per CBO Norms	As per IFRS 9	Difference
Impairment Loss charged to profit and loss	-	13,347	NA
Provisions required as per CBO norms/ held as per IFRS 9	184,932	172,300	(12,632)
Gross non-performing loan ratio (percentage)	-	5.54	NA
Net non-performing loan ratio (percentage)	-	4.94	NA

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	2,312,840	28,358	9,215	19,143	2,303,625	-
	Stage 2	178,072	5,781	9,455	(3,674)	168,617	-
	Stage 3	-	-	-	-	-	-
Subtotal		2,490,912	34,139	18,670	15,469	2,472,242	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	473,632	4,753	29,947	(25,194)	443,685	-
	Stage 3	-	-	-	-	-	-
Subtotal		473,632	4,753	29,947	(25,194)	443,685	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	4,373	1,083	2,742	(1,620)	1,631	39
Subtotal		4,373	1,083	2,742	(1,620)	1,631	39
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	13,334	4,395	3,825	785	9,509	215
Subtotal		13,334	4,395	3,825	785	9,509	215
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	156,195	120,762	113,226	27,082	42,969	19,546
Subtotal		156,195	120,762	113,226	27,082	42,969	19,546
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	613,138	-	1,145	(1,145)	611,993	-
	Stage 2	117,698	-	2,745	(2,745)	114,953	-
	Stage 3	-	-	-	-	-	-
Subtotal		730,836	-	3,890	(3,890)	726,946	-
Total	Stage 1	2,925,978	28,358	10,360	17,998	2,915,618	-
	Stage 2	769,402	10,534	42,147	(31,613)	727,255	-
	Stage 3	173,902	126,240	119,793	26,247	54,109	19,800
	Total	3,869,282	165,132	172,300	12,632	3,696,982	19,800

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

22 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

22.1 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	NA
Net non-performing loan ratio (percentage)	-	5.24	NA

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 (CONTINUED)
30 June 2021 (unaudited)

22 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

22.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2021:

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	58,608	869	3,324	(2,455)	55,284	-
	Stage 3	-	-	-	-	-	-
Subtotal		58,608	869	3,324	(2,455)	55,284	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	36,415	33,165	28,532	9,017	7,883	4,384
Sub total		36,415	33,165	28,532	9,017	7,883	4,384
Total	Stage 1	-	-	-	-	-	-
	Stage 2	58,608	869	3,324	(2,455)	55,284	-
	Stage 3	36,415	33,165	28,532	9,017	7,883	4,384
	Total	95,023	34,034	31,856	6,562	63,167	4,384

22.2 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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

22 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

22.3 Movement in Expected credit losses (ECL) as at 30 June 2021

	<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	2,312,839	651,704	173,903	3,138,446
- Investment Securities (Debt)	343,010	5,775	-	348,785
- Loan Commitments and Financial Guarantees	389,311	117,698	-	507,009
- Due from Banks, Central Banks and Other Financial Assets	86,662	-	-	86,662
	3,131,822	775,177	173,903	4,080,902
Opening Balance - as at 1 January 2021				
- 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
Net transfer between stages				
- Loans and Advances to Customers	(60)	(1,446)	1,506	-
- Investment Securities (Debt)	(118)	118	-	-
- Loan Commitments and Financial Guarantees	-	-	-	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	(178)	(1,328)	1,506	-
Charge for the Period (net)				
- Loans and Advances to Customers	(2,565)	9,222	9,332	15,989
- Investment Securities (Debt)	20	126	-	146
- Loan Commitments and Financial Guarantees	(55)	561	-	506
- Due from Banks, Central Banks and Other Financial Assets	(17)	-	-	(17)
	(2,617)	9,909	9,332	16,624
Write off for the period				
- Loans and Advances to Customers	-	-	(3,471)	(3,471)
	-	-	(3,471)	(3,471)
Closing Balance - as at 30 June 2021				
- Loans and Advances to Customers	9,215	39,402	119,793	168,410
- Investment Securities (Debt)	220	244	-	464
- Loan Commitments and Financial Guarantees	855	2,501	-	3,356
- Due from Banks, Central Banks and Other Financial Assets	70	-	-	70
	10,360	42,147	119,793	172,300

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

22 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

22.3 Movement in Expected credit losses (ECL) as at 30 June 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	2,247,980	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

22.4 Movement in impairment credit losses for the period ended 30 June 2021

	6 months ended	6 months ended	3 months ended	3 months ended
	30/06/2021	30/06/2020	30/06/2021	30/06/2020
	RO'000	RO'000	RO'000	RO'000
(Impairment)/reversal of impairment for credit losses:				
Due from Banks	17	351	6	305
Loans and advances to customers	(14,028)	(12,121)	(5,975)	(7,190)
Investments	(146)	50	(139)	19
Financial guarantees	(506)	370	(564)	683
Total	(14,663)	(11,350)	(6,672)	(6,183)
Recoveries and releases from:				
Provision for credit losses	992	1,289	646	69
Loans and advances written off	1,430	693	714	362
Total	2,422	1,982	1,360	431
Net Impairment losses	(12,241)	(9,368)	(5,312)	(5,752)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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23 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 30/06/2021 RO'000	6 months ended 30/06/2020 RO'000	3 months ended 30/06/2021 RO'000	3 months ended 30/06/2020 RO'000
Profit after tax (RO'000s)	15,647	15,025	8,753	5,247
Less: Interest on Tier1 perpetual bond	(3,842)	(4,548)	(3,842)	(4,548)
Profit attributable to shareholders	11,805	10,477	4,911	699
Weighted average number of shares outstanding during the year (in '000s)	1,625,946	1,625,946	1,625,946	1,625,946
Earnings per share (RO)	0.007	0.006	0.003	0.000

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.

24 ASSET LIABILITY MISMATCH

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

	Assets RO'000	Equity and liabilities RO'000	Mismatch RO'000
<i>Maturities as at 30 June 2021</i>			
0 - 3 month	825,720	862,752	(37,032)
3 - 12 month	336,860	1,004,092	(667,232)
1 – 5 years	915,948	917,414	(1,466)
More than 5 years	1,744,836	1,039,106	705,730
Total	3,823,364	3,823,364	-
<i>Maturities as at 30 June 2020</i>			
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	1,725,737	1,044,582	681,155
Total	3,686,910	3,686,910	-
<i>Maturities as at 31 December 2020</i>			
0 - 3 month	768,771	813,909	(45,138)
3 - 12 month	296,043	876,050	(580,007)
1 – 5 years	888,045	974,270	(86,225)
More than 5 years	1,679,792	968,422	711,370
Total	3,632,651	3,632,651	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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25 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 paid up share capital and others include directors, senior management and associate companies of principal shareholders and directors.

	30/06/2021			31/12/2020		
	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances	-	141,901	141,901	-	121,307	121,307
Customers' deposits	2,779	42,027	44,806	25,117	55,375	80,492
Due from banks	2,278	-	2,278	218	-	218
Due to banks	106	-	106	201	-	201
Letters of credit, guarantees and acceptances	1,076	10,146	11,222	1,063	13,074	14,137
Standby revolving credit facility	-	-	-	154,000	-	154,000
Investments	2,294	-	2,294	2,272	-	2,272

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

	30/06/2021			30/06/2020		
	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income	2	3,155	3,157	17	3,830	3,847
Commission income	1	230	231	1	116	117
Interest expense	494	637	1,131	2,010	824	2,834
Other expenses	-	146	146	-	298	298

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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26 SHAREHOLDERS

As of 30 June 2021, 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	567,452	34.90%
Suhail Bahwan Group (Holdings) LLC	239,734	14.74%
Civil Service Employees Pension Fund	185,487	11.41%

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

27 CAPITAL ADEQUACY

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

	<i>30/06/2021</i>	<i>30/06/2020</i>	<i>31/12/2020</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Capital base			
Common equity Tier 1	400,773	383,363	402,817
Additional Tier 1 - capital	115,500	115,500	115,500
Tier 2 capital	31,910	23,625	33,939
Total capital base	548,183	522,488	552,256
Risk weighted assets			
Credit risk	3,126,126	3,027,047	3,072,484
Operational risk	233,953	243,431	233,953
Market risk	83,797	88,148	52,171
Total risk weighted assets	3,443,876	3,358,626	3,358,608
Common Equity Tier 1 Ratio	11.6%	11.4%	12.0%
Tier 1 Ratio	15.0%	14.9%	15.4%
Risk asset ratio (Basel II norms)	15.9%	15.6%	16.4%

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

28 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.
- 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 allocated to operating segments.

Segment information by business line is as follows:

	Retail Banking RO'000	Wholesale Banking RO'000	Commercial Banking RO'000	International Banking RO'000	Islamic Banking RO'000	Funding center RO'000	Total RO'000
30 June 2021							
Operating income	29,479	36,167	2,127	2,308	2,246	(10,009)	62,318
Net profit/(loss)	9,006	19,049	(208)	277	308	(12,785)	15,647
Total assets	1,315,439	1,756,677	37,500	124,369	179,828	409,551	3,823,364
30 June 2020							
Operating income	28,858	30,374	2,362	1,533	2,294	(5,988)	59,433
Net profit/(loss)	5,370	20,388	(173)	(2,510)	487	(8,537)	15,025
Total assets	1,281,077	1,597,131	87,508	127,129	175,289	418,776	3,686,910

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

28 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:

For the period ended 30 June 2021	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Interest income and Income from Islamic financing and Investment activities	43,916	1,112	6	45,034
Other operating income	16,094	428	762	17,284
Operating income	60,010	1,540	768	62,318
Operating expenses	(30,343)	(1,312)	59	(31,596)
Operating profit	29,667	228	827	30,722
Impairment losses (net) and taxation	(15,115)	40	-	(15,075)
Segment profit for the period	14,552	268	827	15,647

Other information

Segment assets	3,698,995	102,044	22,325	3,823,364
Segment capital expenses	1,265	12	-	1,277

For the period ended 30 June 2020	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</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	3,559,781	108,115	19,014	3,686,910
Segment capital expenses	1,266	32	-	1,298

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

29 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 2021			
Investment measured at FVTPL			
Quoted equities	888	-	888
Unquoted equities	-	2,430	2,430
Total	888	2,430	3,318
Investment measured at FVOCI			
Quoted equities	39,399	-	39,399
Unquoted equities	-	324	324
Total	39,399	324	39,723
TOTAL FINANCIAL INVESTMENTS	40,287	2,754	43,041

	<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	31,771	-	31,771
Unquoted equities	-	310	310
Total	31,771	310	32,081
TOTAL FINANCIAL INVESTMENTS	36,647	2,654	39,301

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 December 2020	<i>Level 1</i> <i>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Investment measured at FVTPL			
Quoted equities	872	-	872
Unquoted equities	-	2,683	2,683
Total	872	2,683	3,555
Investment measured at FVOCI			
Quoted equities	36,661	-	36,661
Unquoted equities	-	324	324
Total	36,661	324	36,985
TOTAL FINANCIAL INVESTMENTS	37,533	3,007	40,540

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 30).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)

30 June 2021 (unaudited)

30 DERIVATIVES

	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 Year RO'000</i>
<i>30 June 2021</i>						
Interest rate swaps	3,682	(3,682)	429,435	16,726	38,835	373,874
Forward foreign exchange purchase contracts	23	(60)	138,793	84,322	7,859	46,612
Forward foreign exchange sales contracts	639	(4)	138,793	84,161	7,864	46,768
Total	4,344	(3,746)	707,021	185,209	54,558	467,254
<i>30 June 2020</i>						
Interest rate swaps	4,731	(4,731)	186,282	13,081	41,815	131,386
Forward purchase contracts	59	(191)	221,338	71,267	52,479	97,592
Forward sales contracts	1,198	(68)	221,338	70,890	51,938	98,510
Total	5,988	(4,990)	628,958	155,238	146,232	327,488
<i>31 December 2020</i>						
Interest rate swaps	3,871	(3,871)	178,163	13,082	39,389	125,692
Forward purchase contracts	85	-	89,882	50,874	36,390	2,618
Forward 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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
30 June 2021 (unaudited)

31 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 2021		June 2020	
	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)	-	675,341	-	537,004
Cash outflows				
Stable deposits	646,928	32,346	636,965	31,848
Less stable deposits	132,567	13,257	127,499	12,750
Retail deposits and deposits from small business customers	779,495	45,603	764,464	44,598
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,165,383	448,838	1,038,014	437,640
Additional requirements, of which:				
Credit and liquidity facilities	36,703	3,670	71,283	7,128
Other contractual funding obligations	-	1,775	-	-
Other contingent funding obligations	402,871	78,130	425,039	24,076
Total cash outflows	-	578,016	-	513,442
Cash inflows				
Inflows from fully performing exposures	254,274	161,672	335,233	226,833
Other cash inflows	17,483	76,249	16,621	16,621
Total cash inflows	271,757	237,921	351,854	243,454
Total high quality liquid assets	-	675,341	-	537,004
Total net cash outflows	-	340,095	-	269,988
Liquidity coverage ratio (%)	-	198.57	-	198.90

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)

30 June 2021 (unaudited)

32 ESTIMATES AND JUDGMENTS

IMPACT OF 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 moderately low 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 and 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 instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of certain fees, providing capital relief and increasing the lending ratio etc. Some of these measures have been extended until 30 September 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)

30 June 2021 (unaudited)

32 ESTIMATES AND JUDGMENTS (continued)

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. The impacts of COVID-19 on the bank is as follows;

- Impact on SICR: The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR.
- Impact on ECL: The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. 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: 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 impact of COVID 19.
- 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 instalments. 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 circumstances, where the deferrals were for the entire instalments the corresponding modification loss has not resulted in any significant impact to the carrying value.
- 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.

33 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2020 have been reclassified in order to conform with the presentation for the current year.