BANK DHOFAR SAOG

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2020

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2020

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements and the Auditors' Report for the financial year ended 31st December 2020.

Financial overview in year 2020

Despite the current challenging economic and financial situation driven by the global pandemic Coronavirus (Covid19) and continued pressure on oil prices, the bank continued to grow its net profit in 2020 achieving 1.16% growth year-on year from RO 30.24 million (USD 78.55 million) as of 31st of December 2019 to RO 30.59 million (USD 79.46 million) as of 31st of December 2020. Total assets of the Bank reached RO 4.26 billion (USD 11.07 billion) in December 2020 as compared to RO 4.33 billion (USD 11.25 billion) at end of 2019, 1.62% decrease. The Net Loans, Advances and Financing to customers reached RO 3.27 billion (USD 8.49 billion) at December 2020, compared to RO 3.06 billion (USD 7.95 billion) at the end of 2019, 6.6% increase year-on-year, continuing the cautious approach on increasing the loan and financing book and focusing on credit quality. Customer deposits, including Islamic deposits decrease by 2.78% from RO 2.94 billion (USD 7.64 billion) at the end of 2019 to reach RO 2.86 billion (USD 7.43 billion) at the end of 2020.

The Net Interest Income and income from Islamic Financing activities earned were RO 109.06 million (USD 283.27 million) for the year 2019 as compared to RO 107.64 million (USD 279.58 million) during 2020, a decrease of 1.3%. However, Non-funded income increased by 6.89% year-on-year reaching RO 22.35 million (USD 58.05 million) in 2020 as against RO 20.91 million (USD 54.31 million) for 2019. The total operating income is RO 129.99 million (USD 337.64 million) for the year 2020 as compared to RO 129.96 million (USD 337.56 million) for the year 2019, year-on-year increase of 0.02%. Total Operating Expenses decrease to RO 65.08 million (USD 169.04 million) for the year 2020 as compared to RO 71.47 million (USD 185.64 million) for the year 2019, 8.94% year-on-year decrease. Excluding RO 1 million Corporate Social Responsibility (CSR) Donation made during 2020, Operating Expenses decreased by 10.34% year-on-year. This helped improve the cost to income ratio to 50% in 2020 from 55% in 2019.

Net provisions (Expected Credit Loss 'ECL') for the year 2020 is RO 28.99 million (USD 75.30 million) compared to 22.39 million (USD 58.16 million) for the year 2019, an increase of RO 6.60 million (USD 17.14 million). 2019 net provisions include classification of certain large accounts reflecting the market conditions. 2020 net provisions include management overlay of precautionary provisions considering the economic impact due to Covid19 global pandemic and continued pressure on oil prices. Gross NPL (Non-performing loans) decreased to 4.53% as at 31st December 2020 from 4.67% as at 31st December 2019. Net NPL, net of interest reserve is 3.81% at 31st December 2020 vs. 3.91% at 31st December 2019; Net NPL, net of interest reserve and ECL provision is 1.81% as at 31st December 2020 compared to 2.14% at 31st December 2019. NPL is based on funded non-performing exposure over total funded exposure.

Maisarah- Islamic Banking Services

In the midst of current economic challenges caused by COVID-19 pandemic and related challenges in the market, Maisarah key financial metrics continued to show momentous growth. The gross income from Financing, Placement and Investment increased by 15.51% to RO 30.31 million (USD 78.73 million) in 2020 from RO 26.24 million (USD 68.16 million) reported in 2019. The net financing income (after cost of funds) increased by 24.15%, to RO 15.42 million (USD 40.05 million) for 2020 as compared to RO 12.42 million (USD 32.26 million) reported in 2019. Non-Funded income declined by 18.91% to RO 1.93 million (USD 5.01 million) in 2020 from RO 2.38 million (USD 6.18 million) in 2019. Non Funded income from business was lower compared to previous year due to the economic challenges resulting from Covid19 pandemic outbreak.

Maisarah operating revenue increased significantly by 17.23% to RO 17.35 million (USD 45.06 million) in 2020, compared to RO 14.80 million (USD 38.44 million) earned in 2019. Operating expenses of Maisarah increased 5.88% to RO 7.51 million in 2020 compared to RO 7.09 million in 2019. Operating profit before ECL/provisions of Maisarah showing strong growth of 27.63% year-on-year. Maisarah net impairment (ECL) for 2020 is RO 3.33 million (USD 8.65 million) compared to RO 0.74 million (USD 1.92 million) for 2019. The higher impairment is due to the prudent measures which were taken considering the economic impact due to Covid19 pandemic and continued pressure on oil prices. Cost to income ratio continued to improve and reduced to 43.29% for 2020 from 47.92% in 2019.

Maisarah Islamic Banking Services posted a profit before tax of RO 6.51 million (USD 16.91 million) compared to RO 6.97 million (USD 18.10 million) earned in 2019, reflecting a year on year decline of 6.60%, mainly due to the higher net impairment allowance as mentioned above.

Maisarah gross financing portfolio has grown 7.12% to RO 483.56 million (USD 1.26 billion) at 31 December 2020 from RO 451.44 million (USD 1.17 billion) at 31 December 2019. The Sukuk investment portfolio increased by 31.79% from RO 62.15 million (USD 161.43 million) as at 31 December 2019 to RO 81.91 million (USD 212.75 million) as at 31 December 2020. The total customer deposits of Maisarah dropped to RO 373.26 million (USD 969.51 million) at 31 December 2020 from RO 405.22 million (USD 1.05 billion) compared to 31 December 2019, a decline of 7.89%. Maisarah total assets increased by 5.74% to OMR 618.52 million (USD 1.61 billion) at 31 December 2020 from OMR 584.93 million (USD 1.52 billion) at 31 December 2019.

To support Maisarah growth, RO 15 million (USD 38.96 million) additional capital was injected during the year 2020 taking the total paid-up-capital to RO 70 million (USD 181.82 million) from RO 55 million (USD 142.86 million) at 31st Dec 2019 from the core capital of the Bank.

Top Management Changes

As part of Bank's long-term strategy, the following senior management changes took place during the year 2020:

- Appointments of banks top team management
    - Mr. Kamal Al Maraza is appointed as Chief Maisarah Islamic Banking Officer in June 2020.
    - Mr. Leen Kumar Sugumaran is appointed as General Manager & Chief Risk Officer in March 2020.
    - Mr. Hussain Ali Al-Lawati is appointed as Acting Chief Corporate Banking Officer in June 2020.
    - Dr Tariq Taha is appointed as Chief Retail Banking Officer in June 2020.
    - Mr. Sohail Niazi is appointed as Chief Institutional Banking Officer in June 2020.
    - Mr. Faisal Hamed Al-Wahaibi is appointed as Chief Strategic Business Officer in June 2020.

- Resignation of top team management:
    - Resignation of Chief Financial Officer Mr. Shankar Sharma in November 2020.

Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. The Bank has also assessed and reviewed the internal control procedures of the Bank during the year 2020.

In compliance with Article (129 & 133) of the Commercial Companies Law No. 27/2021 and its amendments, the Board of Directors would like to disclose that the total amount received in 2020 as sitting fees was RO 88,000 and the proposed remuneration & sitting fees is RO 300,000 complying with total of RO 388,000.

Capital Adequacy

The Bank carries strong capital position of Core Equity Tier 1 Ratio (CET-1) of 12.45% as at 31st December 2020 (12.59% as at 31st December 2019), Tier 1 Capital Ratio of 16.27% (16.40% last year) and total Capital Adequacy Ratio of 17.70% (17.86% last year), compared to Regulatory Minimum of 8.25%, 11.25% and 12.25% respectively.

Distributed & Proposed Dividends

The Board of Directors in their meeting held on 28th January 2021 proposed a total cash dividend of 6%, (6 (six) baizas per share, total of RO 17.978 million) (2019: 3%; RO 8.99 million) and nil bonus share issue distribution for the year ended 31st December 2020 (2019: Nil), This is subject to the Central Bank of Oman and shareholders' approval.

The Bank has received CBO approval for a total cash dividend of 4%, (4 baizas per share, total of RO 11.985 million) for the year 2020 instead of the proposed a total cash dividend of 6%, (6 (six) baizas per share, total of RO 17.978 million) and this is subject to the shareholders' approval.

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2015	2016	2017	2018	2019
Cash Dividends	15%	13.5%	12%	10%	3%
Bonus Shares	10%	7.5%	8%	7%	Nil

Corporate Social Responsibility (CSR) Initiatives

In solidarity with the nationwide efforts to combat the coronavirus (Covid-19), The Board of Directors contributed OMR 1 Million to provide the necessary medical equipment and supplies in cooperation with the Ministry of Health.

Within the same context, BankDhofar also offered loan instalment deferments for customers as support to the affected families.

BankDhofar has always been at the forefront in providing support to the community and continue delivering on its commitment to innovating strategic sustainable CSR initiatives ensuring lasting positive benefits to the local community.

Awards and Accolades during 2020

Bank Dhofar won the following rewards during the year 2020 and those awards are testimony to the continued efforts put in by the Bank:

- Most Successful Companies in Oman Award by Forbes Middle East

- Best Islamic bank in Oman - Maisarah Islamic Banking Services at the Middle East Banking Awards 2019 (EMEA Finance)
- Best Investment Banking Brand, Oman 2019 by Global Brand Awards
- Best Business and Corporate Banking Oman 2020 by International Business Magazine
- Best Digital Bank in Oman 2020 by Asiamoney Middle East's Best Bank Awards
- Three Decades of Excellence in Banking Award by Oman Economic Review (OER)
- Banking Group Brand of the Year Oman 2020 by Global Banking and Finance Awards
- Fastest Growing Islamic Retail Bank Oman 2020 - Maisarah Islamic Banking Services by Global Banking and Finance Awards
- Banking Customer Satisfaction & Happiness Oman 2020 by Global Banking and Finance Awards
- Most Innovative Islamic Banking Window (Maisarah Islamic Banking Services) Oman 2020 by Global Business Outlook

The Year Ahead (2021)

Oman Government 2021 Budget assumes oil price of $45/bbl (compared to $58/bbl factored in 2020 Budget) and expecting Revenue of RO 8.64 Billion, expenditure of RO 10.88 billion resulting a budget deficit of RO 2.2 Billion. With the introduction of Value-added-tax (VAT) targeting to start from April 2021, the revenue from taxes is expected to increase to RO 3 billion in 2021 compared to RO 1.8 billion in 2020 estimated actual. Tax reforms and other initiatives is expected increase the non-oil sector contribution to revenue to 37% in 2021 Budget vs. 28% estimated in 2020. Oman expects to fund the RO 2.2 billion Budget deficit through RO 1.6 billion internal and external borrowing and balance from the reserves. Debt to GDP is projected to be 79% end of 2021. Several reforms have been initiated in 2020 under the new leadership and such reforms include merging of sovereign wealth funds to form one large Oman Investment Authority (OIA), consolidation and streamlining of ministries and government agencies, endorsing the Medium-Term Fiscal Plan to achieve Fiscal Sustainability, formation of Energy Development Oman. Gross Domestic Product (GDP) growth targeted to be 2.3% in 2021. Oman Government, through a Royal Decree, published the Tenth Five-Year Plan (2021-2025), which aims to achieve a real growth GDP annual growth of not less than 3.5%. This comes from addressing the four main pillars of enriching human capital, create competitive economy from sustainable resources and a State with Responsible Bodies. The 5-year plan also targets to achieve fiscal surplus by the year 2025.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and Chairman, members of Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their efforts and contributions in the year 2020, wishing them all the best in intensifying their efforts in 2021, which would enable the Bank to enhance its performance with a view to minimize its operational costs, achieve more profits and maintain its position as second ranking bank in the market.

The Board of Directors also wishes to thank the Central Bank of Oman and the Capital Market Authority for their valuable guidance to the local banking sector.

Finally, on behalf of the Board of Directors, employees and the management I would like to express our most sincere gratitude to His Majesty Sultan Haitham Bin Tariq for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2020 RO'000	2019 RO'000
Assets			
Cash and balances with Central Bank of Oman	*5*	**208,836**	300,405
Investment securities	*8*	**457,817**	378,551
Loans, advances and financing to banks	*6*	**121,522**	471,158
Loans, advances and financing to customers (conventional)	*7*	**2,790,468**	2,617,345
Islamic financing receivables	*7*	**475,020**	446,005
Other assets	*11*	**181,915**	92,812
Intangible asset	*9*	**-**	397
Property and equipment	*10*	**21,445**	19,172
Total assets		**4,257,023**	**4,325,845**
Liabilities and equity			
Liabilities			
Due to banks	*12*	**451,955**	490,179
Deposits from customers (conventional)	*13*	**2,488,053**	2,537,967
Islamic customers deposits	*13*	**373,262**	405,221
Other liabilities	*14*	**195,085**	131,093
Tax Liabilities	*24 (e)*	**17,804**	11,355
Subordinated loans	*15*	**35,000**	63,875
Total liabilities		**3,561,159**	3,639,690
Equity			
Shareholders' equity			
Share capital	*16(a)*	**299,635**	299,635
Share premium	*17*	**95,656**	95,656
Legal reserve	*18(a)*	**62,025**	58,966
Special reserve	*18(d)*	**17,488**	18,488
Special reserve for restructured loans	*18(e)*	**1,281**	1,281
Special impairment reserve - Net of tax	*18(f)*	**12,184**	4,654
Special revaluation reserve -33 Investment	*18(g)*	**(709)**	(709)
Subordinated loan reserve	*18(b)*	**21,000**	42,875
Investment revaluation reserve	*18(c)*	**(2,370)**	(627)
Retained earnings	*19*	**34,174**	10,436
Total equity attributable to the equity holders of the Bank		**540,364**	530,655
Perpetual Tier 1 capital securities	*16 (b)*	**155,500**	155,500
Total equity		**695,864**	686,155
Total liabilities and equity		**4,257,023**	4,325,845
Contingent liabilities and commitments	*28(a)*	**661,491**	810,930
Net assets per share (Rial Omani)	*20*	**0.180**	0.177

The financial statements including notes and other explanatory information on pages 12 to 106 were approved and authorised for issue by the Board of Directors on 28th January 2021 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME
As at 31 December

	Notes	2020 RO'000	2019 RO'000
Interest income	*21*	**174,944**	182,125
Interest expense	*22*	**(82,725)**	(85,485)
Net interest income		**92,219**	96,640
Income from Islamic financing / Investments	*21*	**30,310**	26,240
Unrestricted investment account holders' share of profit and profit expense	*22*	**(14,889)**	(13,822)
Net income from Islamic financing and investment activities		**15,421**	12,418
Fees and commission income		**16,493**	18,398
Fees and commission expense		**(2,904)**	(4,171)
Net fees and commission income	*29*	**13,589**	14,227
Other operating income	*22*	**8,764**	6,679
Operating income		**129,993**	129,964
Staff and administrative costs	*23*	**(58,410)**	(65,778)
Depreciation	*10*	**(6,669)**	(5,696)
Operating expenses		**(65,079)**	(71,474)
Net impairment losses on financial assets	*7*	**(28,990)**	(22,394)
Bad debts written-off		**(1)**	(4)
Profit before taxation		**35,923**	36,092
Income tax expense	*24*	**(5,338)**	(5,848)
Profit for the year		**30,585**	30,244
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Movement in fair value reserve (FVOCI equity instrument)	*18(c)*	**(368)**	(482)
Items that are or may be reclassified to profit or loss in subsequent periods:			
Movement in fair value reserve			
- FVOCI debt instruments	*18(c)*	**(1,375)**	1,644
Other comprehensive (loss) / income for the year		**(1,743)**	1,162
Total comprehensive income for the year		**28,842**	31,406
Earnings per share (basic and diluted) (Rial Omani)	*25*	**0.007**	0.006

The notes on pages 12 to 106 are an integral part of these financial statements.

Independent auditor's report - pages 1 to 6

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Notes	Share capital	Share premium	Legal reserve	Special reserve	Special reserve restructured loan	Special impairment reserve	Special revaluation reserve	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total	Perpetual Tier 1 capital securities	Total equity
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2020		299,635	95,656	58,966	18,488	1,281	4,654	(709)	42,875	(627)	10,436	530,655	155,500	686,155
Profit for the year														
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	30,585	30,585	-	30,585
Net changes in fair value reserve														
- FVOCI equity instrument	*18(c)*	-	-	-	-	-	-	-	-	(368)	-	(368)	-	(368)
- FVOCI debt instruments	*18(c)*	-	-	-	-	-	-	-	-	(1,375)	-	(1,375)	-	(1,375)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	(1,743)	30,585	28,842	-	28,842
Transfer to special impairment reserve IFRS 9 (net of tax)	*18(f) & 7(d)*	-	-	-	-	-	7,530	-	-	-	(7,530)	-	-	-
Transfer to legal reserve	*18(a)*	-	-	3,059	-	-	-	-	-	-	(3,059)	-	-	-
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	7,000	-	(7,000)	-	-	-
	18(b)	-	-	-	-	-	-	-	(28,875)	-	28,875	-	-	-
Transfer to Retained Earnings	*18(d)*	-	-	-	(1,000)	-	-	-	-	-	1,000	-	-	-
Perpetual Tier 1 capital securities:														
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(10,144)	(10,144)	-	(10,144)
Transactions with equity holders recorded directly in equity														
Dividend paid	*35*	-	-	-	-	-	-	-	-	-	(8,989)	(8,989)	-	(8,989)
Balances as at 31 December 2020		299,635	95,656	62,025	17,488	1,281	12,184	(709)	21,000	(2,370)	34,174	540,364	155,500	695,864

The notes on pages 12 to 106 are an integral part of these financial statements.

Independent auditor's report - pages 1 to 6

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Notes	Share capital	Share premium	Legal reserve	Special reserve	Special reserve restructured loan	Special impairment reserve	Special revaluation reserve	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total	Perpetual Tier 1 capital securities	Total equity
		RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Balance at 1 January 2019		**280,033**	**95,656**	**55,878**	**18,488**	**1,281**	**4,562**	**(709)**	**30,100**	**(1,789)**	**59,162**	**542,662**	**155,500**	**698,162**
Profit for the year											**30,244**	**30,244**		**30,244**
Other comprehensive income for the year:														
Net changes in fair value reserve														
- FVOCI equity instrument	*18(c)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(482)**	**-**	**(482)**	**-**	**(482)**
- FVOCI debt instruments	*18(c)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,644**	**-**	**1,644**	**-**	**1,644**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,162**	**30,244**	**31,406**	**-**	**31,406**
Reversal of special impairment reserve to IFRS 9 provision (Net Tax)	*18(f)*	**-**	**-**	**-**	**-**	**-**	**(4,562)**	**-**	**-**	**-**	**-**	**(4,562)**	**-**	**(4,562)**
Transfer to special impairment reserve IFRS 9	*18(f)*	**-**	**-**	**-**	**-**	**-**	**4,654**	**-**	**-**	**-**	**(4,654)**	**-**	**-**	**-**
Transfer to legal reserve	*18(a)*	**-**	**-**	**3,024**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,024)**	**-**	**-**	**-**
Excess of receipts over right issue expenses	*18(a)*	**-**	**-**	**64**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**64**	**-**	**64**
Transfer to subordinated loan reserve	*18(b)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,775**	**-**	**(12,775)**	**-**	**-**	**-**
Perpetual Tier 1 capital securities:														
- Payment towards perpetual additional Tier 1 coupon		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10,912)**	**(10,912)**	**-**	**(10,912)**
Transactions with equity holders recorded directly in equity														
Dividend paid	*35*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(28,003)**	**(28,003)**	**-**	**(28,003)**
Bonus shares issued	*35*	**19,602**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,602)**	**-**	**-**	**-**
Balances as at 31 December 2019		**299,635**	**95,656**	**58,966**	**18,488**	**1,281**	**4,654**	**(709)**	**42,875**	**(627)**	**10,436**	**530,655**	**155,500**	**686,155**

The notes on pages 12 to 106 are an integral part of these financial statements.

Independent auditor's report - pages 1 to 6

BANK DHOFAR SAOG

STATEMENT OF CASH FLOWS
For the year ended 31 December

	2020 RO'000	2019 RO'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before taxation	**35,923**	36,092
Adjustment for:		
Depreciation and amortisation	**7,066**	6,093
Net impairment on financial asset	**28,991**	22,398
Dividend income	**(222)**	(289)
End of service benefits provision for the year	**1,337**	299
Gain on disposal of property and equipment	**-**	(6)
Interest expense on subordinated loans	**2,479**	3,578
Gain/loss on sale of investments	**(114)**	(155)
Operating profit before working capital changes	**75,460**	68,010
Changes in working capital:		
Due to banks	**(38,224)**	121,196
Due from banks	**350,435**	(141,683)
Loans and advances and financing	**(231,667)**	68,905
Other assets	**(84,999)**	11,258
Customer deposits	**(81,873)**	18,684
Other liabilities	**62,956**	(13,147)
Cash (used in)/ generated from operations before tax and end of service benefits	**(52,088)**	133,223
Taxes paid	**(3,203)**	(7,681)
End of service benefits paid	**(426)**	(215)
Net cash (used in)/ generated from operating activities	**48,459**	125,327
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(9,017)**	(10,163)
Dividends received from investment securities	**222**	289
Purchase of investments	**(176,003)**	(229,929)
Proceeds from sale/maturities of investments	**95,182**	155,587
Proceeds from sale of property and equipment	**74**	218
Net cash used in investing activities	**(89,541)**	(83,998)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment) of subordinated loans	**(28,875)**	-
Dividend paid	**(8,989)**	(28,003)
Interest on Tier 1 perpetual subordinated bond	**(10,144)**	(10,912)
Interest expense on subordinated loans	**(2,479)**	(3,578)
Excess of Rights Issue Receipt	**-**	64
Net cash used in financing activities	**(50,487)**	(42,429)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(91,569)**	(1,100)
Cash and cash equivalents at beginning of the year	**299,905**	301,005
Cash and cash equivalents at end of the year	**208,336**	299,905
Cash and cash equivalent comprises of:		
Cash and balances with Central Bank of Oman	**208,836**	300,405
Capital deposit with Central Bank of Oman	**(500)**	(500)
	208,336	299,905

STATEMENT OF CASH FLOWS
For the year ended 31 December

Reconciliation of liabilities and equity arising from financing activities:

	December 2020 RO'000	December 2019 RO'000
Subordinated loan		
Balance at beginning of the year	**63,875**	63,875
Repaid during the year	**(28,875)**	-
Balance at end of the year	**35,000**	63,875
Retained earnings		
Balance at beginning of the year	**10,436**	59,162
Profit for the year	**30,585**	30,244
Transfer to legal reserve	**(3,059)**	(3,024)
Transfer to subordinate reserve	**(7,000)**	(12,775)
Transfer from subordinated loans to retained earning	**28,875**	-
Additional Tier 1 coupon	**(10,144)**	(10,912)
Transfer to special reserve (IFRS 9) Net Tax	**(7,530)**	(4,654)
Transfer to Retained earnings from Special reserve	**1,000**	-
Bonus shares issued	**-**	(19,602)
Dividend transfer	**(8,989)**	(28,003)
Balance at end of the year	**34,174**	10,436

Non cash Transaction

The principal non-cash transactions for the year ended 31 December 2019 consist mainly of the following:

- Impact of the application of IFRS 16 amounting to RO 2.03 million in 2019 million that has been charged to right-of-use assets.

The notes on pages 12 to 106 are an integral part of these financial statements.

Independent auditor's report - pages 1 to 6

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, "Maisarah Islamic Banking services" has an allocated capital of RO 70 Million (2019: RO 55 million) from the core paid up capital of the shareholders. The Bank has a primary listing of its ordinary shares on the Muscat Securities Market ("MSM"), and the Bank's Additional Tier I Perpetual Bonds are listed on the Irish Stock Exchange ('ISE") and Muscat Securities Market ("MSM"). The Bank's principal place of business is its Head Office located at Central Business District ("CBD"), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019. The disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of the CBO. The IBW's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All balances and transactions between the Bank and the IBW are eliminated in these financial statements. The accounting policies used in the preparation of this financial statements are consistent with those audited annual financial statements for the year ended 31 December 2019.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI).

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani ("RO"), which is the Bank's functional (currency of primary economic environment in which the Bank operates) and presentation currency, rounded to the nearest million unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

2 BASIS OF PREPARATION *(continued)*

2.5 Standards, amendments and interpretations to IFRS effective in 2020 and relevant for the Bank's operations:

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

The Bank has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2020:

- Amendments to IFRS 3 – definition of a business, (effective on or after 1 January 2020)
- Amendments to IAS 1 and IAS 8 on the definition of material, (effective on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform Phase 1, (effective on or after 1 January 2020)
- Amendments to References to the Conceptual Framework in IFRS Standards, (effective on or after 1 January 2020)

The Bank also elected to adopt the following amendments early:

- Amendments to IFRS 16 – COVID-19 - Related Rent Concessions, (effective on or after 1 June 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform Phase 2, (effective on or after 1 January 2021)

The impact of the adoption of the amendments and changes in accounting policies are disclosed in notes 2.7. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the Bank.

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2020:

There are no relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2021 that would not be expected to have a material impact on the financial statements of the Bank.

- Annual Improvements to IFRS Standards 2018–2020, (effective on or after 1 January 2022)
- Amendments to IAS 16 – Property, Plant and Equipment — Proceeds before Intended Use, (effective on or after 1 January 2022)
- Amendments to IAS 37 – Onerous Contracts — Cost of Fulfilling a Contract, (effective on or after 1 January 2022)
- Amendments to IFRS 3 – Reference to the Conceptual Framework, (effective on or after 1 January 2022)
- Amendments to IFRS 17 – Insurance Contracts, (effective on or after 1 January 2023)
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current, (effective on or after 1 January 2023)

2 BASIS OF PREPARATION *(continued)*

2.7 Changes in accounting policies

A. Amendments to IFRS 16 – COVID-19-Related Rent Concessions

In response to the COVID-19 coronavirus pandemic, in May 2020 the International Accounting Standards Board (the Board) issued an amendment to IFRS 16 Leases to provide practical relief for lessees in accounting for rent concessions. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all of the following criteria are met:
- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to the other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020. Early application is permitted. The Bank has early adopted the amendment and applied the practical expedient consistently to eligible rent concessions.

The Bank negotiated rent concessions with its landlords for the majority of its branches as a result of the severe impact of the COVID-19 pandemic during the year. The Bank applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its branches. This amendment had no material impact on the financial statements of the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency using the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities held at fair value through profit or loss are recognised in comprehensive income as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities

3.2.2 Classification

(a) Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not initially designated as at FVTPL:

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

It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment.

Financial assets measured at fair value through other comprehensive income

i) Debt Instruments

An investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

ii) Equity Instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment by investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition. They are initially recognised at fair value with transaction costs recognised in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of comprehensive income .

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Bank's business model assessment is based on the following categories:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

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

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

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income .

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 (Lifetime ECL) to Stage 2 (Lifetime ECL) or Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for twelve consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets.

Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as impairment as described in note 3.3. The Bank has issued no loan commitment that are measured at FVTPL. Impairment arising from financial guarantee and loan commitments are included within impairment allowance under other liabilities in statement of financial position.

Loans & advances and financing receivables

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less allowance for impairment losses which are recognised in the statement of comprehensive income .

3.2.3 De-recognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of comprehensive income .

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of comprehensive income on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognized. Where a modification does not result in de-recognition, the date of origination continues to be used to determine significant increase in credit risk (SICR). Where a modification results in de-recognition, the new financial asset is recognized at its fair value on the modification date. The modification date is also the date of origination for this new asset.

The Bank may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets modifications of the contractual terms may result in de-recognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorized amount, term, or type of underlying collateral. The original loan is derecognized and the new loan is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized in the statement of comprehensive income .

For all loans, performing and credit-impaired, where the modification of terms did not result in the de-recognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the statement of comprehensive income .

Financial liabilities

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

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

3.2.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.6 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2.7 Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 31.

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

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

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

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

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

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

3.2.8 Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank designates certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Bank designates certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.3 Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Balances with banks
- Loans, advances & financings to banks
- Debt investment securities
- Loans, advances & financings to customer
- Loan commitment
- Other assets
- Financial guarantees
- Unutilized limits towards the loans

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

- Other assets (acceptances and interest receivables)

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Impairment allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments and defaults over a given time horizon. Bank has developed PD models for various portfolios reflecting the existing state of the environment in which the bank operates and in line with a forward looking view. The PD models are built to capture the changing risk of default of clients over a long period of time and Bank has used its own internal data to develop such models. PD is assessed for pool of borrowers falling under each rating grade using statistical tools, which represents the average expected default probability within future 12 months horizons. While the ratings itself incorporate forward looking parameters to a certain extent, the models are structured in a way to produce average PD estimates in line with historical long-run averages including forward looking information.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguish between those amounts forming part of (i) revolving (ii) non-revolving and (iii) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non-revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank’s own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

(a) Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However for unfunded exposures, ECL is measured as follows:

- undrawn loan commitments: at the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(b) Restructured financial assets

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

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

(c) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(c) Credit-impaired financial assets *(continued)*

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data regarding the following events:

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is an evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (refer note 3.3 (g)) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(d) ***Forward-looking information***

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

(e) Macroeconomic factors

In impairment models, the Bank relies on a broad range of forward looking information as economic inputs, such as: real gross domestic product (GDP) growth and oil revenue (as % of GDP). The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(f) Assessment of significant increase in credit risk

The Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers counterparty quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR on financial assets include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the counterparty and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of counterparties; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

(g) Definition of default

The Bank considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security held (if any); or

- The counterparty is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being in default if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where there are not enough credits in the account to cover the interest charged or unauthorized drawings have frequently been allowed.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;

- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The Bank also follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(h) Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortized cost: as a reduction from the gross carrying amount of the financial assets;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as an impairment allowance on off-balance sheet items on other liabilities.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- Loan to value (LTV) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity; and
- industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

(i) Write-off

Loans & advances and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the financing impairment account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income . The policy on write off's remains unchanged.

The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balance with CBO, balances with banks, treasury bills, money market placements and deposits with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.5 Due from banks

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks includes nostro balances, placements and loans to banks.

3.6 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4-10
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income .

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

Computer software costs included in computer equipment are directly associated with identifiable and unique software products controlled by the Bank and have probable economic benefit exceeding the costs beyond one year which are amortised using straight-line method over the estimated useful life of 4 to 10 years.

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances before de-recognition and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income .

3.8 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest rate (EIR) method.

3.10 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Income tax is recognised in the comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Deferred tax assets/liabilities are calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.11 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3.12 Acceptances

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

3.13 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.14 Derivative financial instruments and hedging activities

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Derivative financial instruments and hedging activities *(continued)*

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the method to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedging relationship as well as ongoing basis, of whether the hedging instrument are expected to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedge risk.

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the statement of comprehensive income in the period in which the hedged transaction impacts the comprehensive income . If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to statement of comprehensive income .

The Bank does not have any derivatives designated as hedging instruments.

3.15 Leases

The Banks accounting policy for leases is described in note 36.

3.16 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of comprehensive income as incurred.

The Bank's obligation in respect of non-Omani end of service benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

The obligation is calculated using the projected unit credit method and is discounted to its present value.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.18 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

I. Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid/ received that are an integral part of effective interest rate. Transaction costs includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss allowance.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

I. Interest income and expense *(continued)*

Interest income and expense presented in the statement of comprehensive income include:

(i) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and

(ii) Interest on debt investment securities on an effective interest rate basis.

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

II. Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees. Fees and commission income is measured based on the consideration specified in the contract with the customers. The Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

3.22 Dividends

Dividend income is recognised in the statement of comprehensive income in 'Other income', when the Bank's right to receive income is established.

3.23 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.24 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). The Bank's main business segments are corporate, retail banking, Treasury and Investment. Segmental information pertaining to Islamic Banking Window is also disclosed in note 34.

3.25 Earnings per share

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.26 Perpetual Tier 1 capital securities

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IFRS 9: Financial Instruments. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2019, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which is described in Note 3.

4.1 Impairment of Loans and Advances

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

The following are key estimations that have been used in the process of applying the Bank's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

4.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the Bank and the relevant tax authority.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINT *(continued)*

4.3 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Euronext Dublin (formerly trading as Irish Stock Exchange) and Muscat Securities Market, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity;
- payment of interest and/or capital is solely at the discretion of the Bank
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

The determination of equity classification of these instruments requires significant judgement as certain Clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed by the Directors as not being substantive for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

4.4 Determination of lease term under IFRS 16

In determining the lease term, the Bank considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Bank may contain an extension option, where the Bank has not considered extension options after analyzing the above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Bank. During the financial year, the Bank has not revised its assessment of lease term as no significant events or changes occurred.

5. Cash and balances with the Central Bank of Oman

	2020	2019
	RO'000	RO'000
Cash in hand	**29,094**	31,223
Balances with the Central Bank of Oman	**73,867**	171,007
Placements with the Central Bank of Oman	**105,875**	98,175
	208,836	300,405

Balances with CBO includes capital deposit of RO 0.5 million (2019: RO 0.5 million). This is not available for day to day operations of the Bank and cannot be withdrawn without the Central Bank of Oman's approval. During the year, the average minimum balance to be kept with Central Banks as statutory reserves is RO 83.18 million (2019: RO 85.77 million).

6. Loans, advances and financing to banks at Amortised Cost

	2020 RO'000	2019 RO'000
Syndicated loans to other banks	**36,236**	86,662
Placements with other banks	**67,750**	343,997
Current clearing accounts	**17,990**	41,752
	121,976	472,411
Less: impairment allowance	**(454)**	(1,253)
	121,522	471,158

At 31 December 2020, No placement with any bank individually represented 20% or more of the Bank's placements (2019: Nil).

Movement of the impairment allowance is analysed below:

	2020 RO'000	2019 RO'000
Opening balance as on 1 January	**1,253**	837
(Write Back) / charge for the year	**(799)**	416
Closing balance as on 31 December	**454**	1,253

7. Loans, advances and financing to customers – Conventional Banking

(a) Conventional Banking	2020 RO'000	2019 RO'000
Loans	**2,670,470**	2,425,730
Overdrafts	**123,762**	137,827
Loans against trust receipts	**83,750**	109,865
Bills discounted	**39,089**	46,898
Advance against credit cards	**8,521**	9,450
Gross loans, advances and financing to customers	**2,925,592**	2,729,770
Less: Impairment allowance including reserved interest	**(135,124)**	(112,425)
Net Loans, advances and financing to customers	**2,790,468**	2,617,345

(b) Islamic Banking Window Financing

	2020 RO'000	2019 RO'000
Housing finance	**166,054**	162,731
Corporate finance	**305,055**	276,851
Consumer finance	**13,074**	12,245
	484,183	451,827
Less: Impairment allowance	**(9,163)**	(5,822)
Net financing to customers	**475,020**	446,005

Impairment allowance includes the amount of profit reserve of RO 0.63 million and RO 0.39 million for 2020 and 2019 respectively.

7. Loans, advances and financing to customers *(continued)*

(c) The movement in the impairment allowance is analysed below:

i. Allowance for loan impairment (conventional and Islamic)

	2020	2019
	RO,000	RO,000
1 January	**94,078**	79,308
Reversal of special impairment reserve to IFRS 9 provision	**-**	5,185
Allowance for the year	**39,207**	30,151
Recoveries to statement of comprehensive income during the year	**(8,409)**	(7,996)
Written off during the year	**(5,308)**	(12,570)
31 December	**119,568**	94,078
ii. Reserved interest		
1 January	**24,169**	55,793
Reserved during the year	**11,925**	12,519
Recoveries to statement of comprehensive income during the year	**(2,137)**	(1,623)
Written-off during the year	**(9,238)**	(42,520)
31 December	**24,719**	24,169
Total impairment allowance	**144,287**	118,247

As of 31 December 2020, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 154.57 million (2019: RO 148.582 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

In 2020, the Bank has written off RO 14.55 million of provisions which includes RO 5.31 million of principal amount and RO 9.24 millions of reserved interest (2019 - RO 55.90) as technical write off.

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 IFRS 9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

7. Loans, advances and financing to customers *(continued)*

(c) The movement in the impairment allowance is analysed below *(continued)***:**

iii. Comparison of provision held as per IFRS 9 and required as per CBO norms

Disclosure requirements containing the risk classification –wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognized as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

At 31 December 2020

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,592,730	36,881	17,626	19,255	2,555,849	2,575,104	-	-
	Stage 2	403,114	5,287	4,320	967	397,827	398,794	-	-
Standard	Stage 3	-	-	-	-	-	-		
Subtotal		2,995,844	42,168	21,946	20,222	2,953,676	2,973,898	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	259,364	3,404	29,394	(25,990)	255,960	229,970	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		259,364	3,404	29,394	(25,990)	255,960	229,970	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	10,708	5,202	5,059	143	4,998	5,649	-	508
Subtotal		10,708	5,202	5,059	143	4,998	5,649	-	508
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	12,994	6,805	6,447	358	5,122	6,547	-	1,067
Subtotal		12,994	6,805	6,447	358	5,122	6,547	-	1,067
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	130,865	88,882	56,722	32,160	18,839	74,143	-	23,144
Subtotal		130,865	88,882	56,722	32,160	18,839	74,143	-	23,144
Total loans and advances		3,409,775	146,461	119,568	26,893	3,238,595	3,290,207	-	24,719
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,919,338	186	5,743	(5,557)	1,919,152	1,913,595	-	-
	Stage 2	296,656	-	7,001	(7,001)	296,656	289,655	-	-
	Stage 3	1,953	-	-	-	1,953	1,953	-	-
Subtotal		2,217,947	186	12,744	(12,558)	2,217,761	2,205,203	-	-
	Stage 1	4,512,068	37,067	23,369	13,698	4,475,001	4,488,699	-	-
Total (31 December 2020)	Stage 2	959,134	8,691	40,715	(32,024)	950,443	918,419	-	-
	Stage 3	156,520	100,889	68,228	32,661	30,912	88,292	-	24,719
	Total	5,627,722	146,647	132,312	14,335	5,456,356	5,495,410	-	24,719

* Net of provision and reserve interest as per CBO norms.

7. Loans, advances and financing to customers *(continued)*

(c) Allowance for loan impairment (conventional and Islamic) *(continued)*

iv. Comparison of provision held as per IFRS 9 and required as per CBO norms *(continued)*

At 31 December 2019

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,211,386	27,109	11,586	15,523	2,184,277	2,199,800	-	-
	Stage 2	581,389	7,668	8,281	(613)	573,721	573,108	-	-
Standard	**Stage 3**	-	-	-	-	-	-	-	-
Subtotal		2,792,775	34,777	19,867	14,910	2,757,998	2,772,908	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	**Stage 2**	240,240	5,194	17,776	(12,582)	235,046	222,464	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		240,240	5,194	17,776	(12,582)	235,046	222,464	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	**Stage 3**	19,899	5,245	8,723	(3,478)	13,905	11,176	-	749
Subtotal		19,899	5,245	8,723	(3,478)	13,905	11,176	-	749
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	**Stage 3**	57,340	24,413	18,313	6,100	29,579	39,027	-	3,348
Subtotal		57,340	24,413	18,313	6,100	29,579	39,027	-	3,348
	Stage 1	-	-	-	-	-	-		
	Stage 2	-	-	-	-	-	-	-	-
Loss	**Stage 3**	71,343	43,227	29,399	13,828	8,044	41,944	-	20,072
Subtotal		71,343	43,227	29,399	13,828	8,044	41,944	-	20,072
Total loans and advances		3,181,597	112,856	94,078	18,778	3,044,572	3,087,519	-	24,169
Other items not covered under CBO circular BM 977 and related instructions	**Stage 1**	1,722,430	428	5,909	(5,481)	1,722,002	1,716,521	-	-
	Stage 2	423,510	-	8,643	(8,643)	423,510	414,867	-	-
	Stage 3	2,452	-	-	-	2,452	2,452	-	-
Subtotal		2,148,392	428	14,552	(14,124)	2,147,964	2,133,840	-	-
	Stage 1	3,933,816	27,537	17,495	10,042	3,906,279	3,916,321	-	-
	Stage 2	1,245,139	12,862	34,700	(21,838)	1,232,277	1,210,439	-	-
Total (31 December 2019)	**Stage 3**	151,034	72,885	56,435	16,450	53,980	94,599	-	24,169
	Total	5,329,989	113,284	108,630	4,654	5,192,536	5,221,359	-	24,169

* Net of provision and reserve interest as per CBO norms

(d) Restructured Loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

7. Loans, advances and financing to customers *(continued)*

(d) Restructured Loans *(continued)*

iv. Comparison of provision held as per IFRS 9 and required as per CBO norms *(continued)*

At 31 December 2020

RO'000

Asset Classification as per CBO Norms 31 December 2020	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	6,940	65	203	(138)	6,875	6,737	-	-
Classified as performing	Stage 2	61,014	4,331	9,342	(5,011)	56,683	51,672	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**67,954**	**4,396**	**9,545**	**(5,149)**	**63,558**	**58,409**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,982	2,834	2,387	447	1,705	3,595	-	1,443
Sub total		**5,982**	**2,834**	**2,387**	**447**	**1,705**	**3,595**	**-**	**1,443**
	Stage 1	**6,940**	**65**	**203**	**(138)**	**6,875**	**6,737**	**-**	**-**
	Stage 2	**61,014**	**4,331**	**9,342**	**(5,011)**	**56,683**	**51,672**	**-**	**-**
Total (31 December 2020)	**Stage 3**	**5,982**	**2,834**	**2,387**	**447**	**1,705**	**3,595**	**-**	**1,443**
	Total	**73,936**	**7,230**	**11,932**	**(4,702)**	**65,263**	**62,004**	**-**	**1,443**

* Net of provision and reserve interest as per CBO norms

At 31 December 2019

RO'000

Asset Classification as per CBO Norms 31 December 2019	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	5,941	56	14	42	5,885	5,927	-	-
Classified as performing	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**38,013**	**449**	**2,649**	**(2,200)**	**37,564**	**35,364**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
Sub total		**4,760**	**2,953**	**1,881**	**1,072**	**704**	**2,879**	**-**	**1,103**
	Stage 1	5,941	56	14	42	5,885	5,927	-	-
	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
Total (31 December 2019)	**Stage 3**	4,760	2,953	1,881	1,072	704	2,879	-	1,103
	Total	**42,773**	**3,402**	**4,530**	**(1,128)**	**38,268**	**38,243**	**-**	**1,103**

* Net of provision and reserve interest as per CBO norms

7. Loans, advances and financing to customers *(continued)*

v. Impairment charge and provisions held 2020

	As per CBO Norms RO'000	**As per IFRS 9 RO'000**	**Difference RO'000**
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	**146,647**	**132,312**	**14,335**
Gross NPL ratio	**4.53%**	**4.53%**	**-**
Net NPL ratio	**0.85%**	**1.81%**	**(0.96%)**

Gross NPL (Non-performing Loans) are 4.53% and Net NPL is 1.81% based on funded non-performing exposure over funded exposure.

Note 1: Excluding Interest Reserve of RO 24.72 million.

v (a) ***Special impairment reserve***

During 2020 an amount of RO 7.5 million net of deferred tax of RO 2.15 million was transferred from retained earnings to the special impairment reserve representing the difference of provisions on loans and advances required as per regulatory requirements under CBO circular BM977 of RO 146. 65 million and ECL provisions held as per IFRS 9 of RO 132.31 million. (2019 RO 1.03 million).

Impairment charge and provisions held 2019

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	113,284	108,630	4,654
Gross NPL ratio	4.67%	4.67%	-
Net NPL ratio	1.62%	2.14%	(0.52%)

Note 1 : Excluding Interest Reserve of RO 24.17 million.

7. Loans, advances, and financing to customers *(continued)*

Movement of provisions under IFRS 9 and CBO norms for the year ended 31 December 2020

	As per CBO Norms	**As per IFRS 9**	**Difference**
	RO'000	**RO'000**	**RO'000**
Opening Balance – 1 January 2020	**113,284**	**108,630**	**4,654**
Impairment loss charge for the year	**47,080**	**37,399**	**9,681**
Less: write-back during the year	**(8,409)**	**(8,409)**	**-**
Less: written off during the year	**(5,308)**	**(5,308)**	**-**
Closing balance – 31 December 2020	**146,647**	**132,312**	**14,335**
Total after tax (Net)			**12,184**

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2020

	RO'000
Opening Balance	4,654
Net charge for the year after tax	7,530
Closing Balance as at 31 December 2020	**12,184**

RO 7.53 million (net of tax) would have been the impact on the net profits if additional provisions as per the Central Bank of Oman requirements had been made.

Movement of Provision for the year ended 31 December 2019

	As per CBO Norms	As per IFRS 9	Difference
	RO'000	RO'000	RO'000
Opening Balance – 1 January 2019	91,446	98,806	(7,360)
Impairment loss charged for the year	42,404	30,390	12,014
Less: write-back for the year	(7,996)	(7,996)	-
Less: written off for the year	(12,570)	(12,570)	-
Closing balance 31 December 2019	**113,284**	**108,630**	**4,654**

Movement of IFRS 9 Special Impairment Reserve for the year ended 31 December 2019

	RO'000
Opening Balance	4,562
Reversal of special impairment reserve	(4,562)
Charge for the year before tax	4,654
Closing Balance as end of 31 December 2019	**4,654**

RO 4.65 million would have been the impact on the net profits if additional provisions as per the Central Bank of Oman requirements had been made.

7. Loans, advances and financing to customers *(continued)*

vi. Financial assets and financial liabilities

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9 as at 31 December 2020:

RO'000

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	179,742	-	-	179,742
Due from Banks	121,976	-	-	121,976
Sovereign	393,700	-	-	393,700
Investment Securities at amortized cost	917	-	-	917
Investment Securities at FVOCI	58,465	-	-	58,465
Loans and advances	2,592,730	662,478	154,567	3,409,775
Accrued Interest	31,717	9,753	656	42,126
Acceptances	97,636	6,496	-	104,132
Total funded gross exposure	**3,476,883**	**678,727**	**155,223**	**4,310,833**
Letters of credit/guarantee	535,556	102,058	1,953	639,567
Loan commitment / unutilised limits	565,571	178,349	-	743,920
Total non-funded gross exposure	**1,101,127**	**280,407**	**1,953**	**1,383,487**
Total gross exposure	**4,578,010**	**959,134**	**157,176**	**5,694,320**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	454	-	-	454
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	238	-	-	238
Loans and advances	17,626	33,714	68,228	119,568
Accrued Interest	111	289	-	400
Acceptances	341	15	-	356
Total funded impairment	**18,770**	**34,018**	**68,228**	**121,016**
Letters of credit/guarantee	2,598	5,739	-	8,337
Loan commitment/unutilised limits	2,001	958	-	2,959
Total non-funded impairment	4,599	6,697	**-**	**11,296**
Total impairment	**23,369**	**40,715**	**68,228**	**132,312**
Net exposure				
Central Bank balances	179,742	-	-	179,742
Due from Banks	121,522	-	-	121,522
Sovereign	393,700	-	-	393,700
Investment Securities at amortized Cost	917	-	-	917
Investment Securities at FVOCI	58,227	-	-	58,227
Loans and advances	2,575,104	628,764	86,339	3,290,207
Accrued Interest	31,606	9,464	656	41,726
Acceptances	97,295	6,481	-	103,776
Total funded net exposure	**3,458,113**	**644,709**	**86,995**	**4,189,817**
Letters of credit/guarantee	532,958	96,319	1,953	631,230
Loan commitment / unutilised limits	563,570	177,391	-	740,961
Total net non-funded exposure	**1,096,528**	**273,710**	**1,953**	**1,372,191**
Total net exposure	**4,554,641**	**918,419**	**88,948**	**5,562,008**

Gross exposure of loans and advances of RO 154.57 million under stage 3 includes reserved interest of RO 24.72 million. Accordingly, the principal outstanding of RO 61.62 million was subject to ECL.

7. Loans, advances and financing to customers *(continued)*

vi. Financial assets and financial liabilities *(continued)*

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9 as at 31 December 2019:

RO'000

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central Bank balances	131,583	-	-	131,583
Due from Banks	472,411	-	-	472,411
Sovereign	196,415	-	-	196,415
Investment Securities at amortized cost	20,927	-	-	20,927
Investment Securities at FVOCI	60,545	-	-	60,545
Loans and advances	2,211,386	821,629	148,582	3,181,597
Accrued profit	13,535	4,690	-	18,225
Acceptances	44,675	10,892	-	55,567
Total funded gross exposure	**3,151,477**	**837,211**	**148,582**	**4,137,270**
Letters of credit/guarantee	524,725	283,753	2,452	810,930
Loan commitment / unutilised limits	257,614	124,175	-	381,789
Total non-funded gross exposure	**782,339**	**407,928**	**2,452**	**1,199,719**
Total gross exposure	**3,933,816**	**1,245,139**	**151,034**	**5,329,989**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	1,253	-	-	1,253
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	186	-	-	186
Loans and advances	11,586	26,057	56,435	94,078
Accrued profit	59	136	-	195
Acceptances	78	18	-	96
Total funded impairment	**13,162**	**26,211**	**56,435**	**95,808**
Letters of credit/guarantee	2,442	7,297	-	9,739
Loan commitment/unutilised limits	1,891	1,192	-	3,083
Total non-funded impairment	**4,333**	**8,489**	**-**	**12,822**
Total impairment	**17,495**	**34,700**	**56,435**	**108,630**
Net exposure				
Central Bank balances	131,583	-	-	131,583
Due from Banks	471,158	-	-	471,158
Sovereign	196,415	-	-	196,415
Investment Securities at amortized Cost	20,927	-	-	20,927
Investment Securities at FVOCI	60,359	-	-	60,359
Loans and advances	2,199,800	795,572	92,147	3,087,519
Accrued Profit	13,476	4,554	-	18,030
Acceptances	44,597	10,874	-	55,471
Total funded net exposure	**3,138,315**	**811,000**	**92,147**	**4,041,462**
Letter of credit/guarantee	522,283	276,456	2,452	801,191
Loan commitment / unutilised limits	255,723	122,983	-	378,706
Total net non-funded exposure	**778,006**	**399,439**	**2,452**	**1,179,897**
Total net exposure	**3,916,321**	**1,210,439**	**94,599**	**5,221,359**

Gross exposure of loans and advances of RO 148.58 million under stage 3 includes reserved interest of RO 24.19 million. Accordingly, the principal outstanding of RO 67.98 million was subject to ECL.

7. Loans, advances and financing to customers (continued)

vi. Financial assets and financial liabilities *(continued)*

(d) Classification of financial assets and financial liabilities

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance (Day 1 impact) – as at 1 January 2020				
- Due from banks	**1,253**	**-**	**-**	**1,253**
- Loans and advances to customers	**11,586**	**26,057**	**56,435**	**94,078**
- Investment securities at FVOCI (Debt)	**186**	**-**	**-**	**186**
- Loan commitments and financial guarantees	**2,442**	**7,297**	**-**	**9,739**
- Acceptances	**78**	**18**	**-**	**96**
- Unutilised	**1,891**	**1,192**	**-**	**3,083**
- Interest Accrued	**59**	**136**	**-**	**195**
Total	**17,495**	**34,700**	**56,435**	**108,630**
Net transfer between stages				
- Loans and advances to customers	**9,131**	**(11,203)**	**2,072**	**-**
- Loan commitments and financial guarantees	**2,399**	**(2,399)**	**-**	**-**
- Acceptances	**-**	**-**	**-**	**-**
- Unutilised	**(9)**	**9**	**-**	**-**
- Interest accrued	**1**	**(4)**	**3**	**-**
Total	**11,522**	**(13,597)**	**2,075**	**-**
Charge for the Period (net)				
- Due from banks	**(799)**	**-**	**-**	**(799)**
- Loans and advances to customers	**(3,091)**	**18,860**	**15,026**	**30,795**
- Investment securities at FVOCI (Debt)	**52**	**-**	**-**	**52**
- Loan commitments and financial guarantees	**(2,243)**	**841**	**-**	**(1,402)**
- Acceptances	**263**	**(3)**	**-**	**260**
- Unutilised	**119**	**(243)**	**-**	**(124)**
- Interest accrued	**51**	**157**	**-**	**208**
Total	**(5,648)**	**19,612**	**15,026**	**28,990**
Written-off during the year	**-**	**-**	**(5,308)**	**(5,308)**
Closing Balance – as at 31 December 2020				
- Due from banks	**454**	**-**	**-**	**454**
- Loans and advances to customers	**17,626**	**33,714**	**68,228**	**119,568**
- Investment securities at FVOCI (Debt)	**238**	**-**	**-**	**238**
- Loan commitments and financial guarantees	**2,598**	**5,739**	**-**	**8,337**
- Acceptances	**341**	**15**	**-**	**356**
- Unutilised	**2,001**	**958**	**-**	**2,959**
- Interest accrued	**111**	**289**	**-**	**400**
Total net exposure	**23,369**	**40,715**	**68,228**	**132,312**

7. Loans, advances and financing to customers *(continued)*

vi. Financial assets and financial liabilities *(continued)*

(d) Classification of financial assets and financial liabilities *(continued)*

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance (Day 1 impact) – as at 1 January 2019				
- Due from banks	837	-	-	837
- Loans and advances to customers	13,350	29,743	41,400	84,493
- Investment securities at FVOCI (Debt)	266	-	-	266
- Loan commitments and financial guarantees	3,258	6,722	-	9,980
- Acceptances	92	35	-	127
- Unutilised	1,343	1,596	-	2,939
- Interest Accrued	61	103	-	164
Total	19,207	38,199	41,400	98,806
Net transfer between stages				
- Loans and advances to customers	1,297	(4,726)	3,429	-
- Loan commitments and financial guarantees	(18)	18	-	-
- Acceptances	5	(5)	-	-
- Unutilised	(11)	11	-	-
- Interest accrued	-	-	-	
Total	1,273	(4,702)	3,429	-
Charge for the Period (net)				
- Due from banks	416	-	-	416
- Loans and advances to customers	(3,061)	1,040	24,176	22,155
- Investment securities at FVOCI (Debt)	(80)	-	-	(80)
- Loan commitments and financial guarantees	(798)	557	-	(241)
- Acceptances	(19)	(12)	-	(31)
- Unutilised	559	(415)	-	144
- Interest accrued	(2)	33	-	31
Total	(2,985)	1,203	24,176	22,394
Written-off during the year	-	-	(12,570)	(12,570)
Closing Balance – as at 31 December 2019				
- Due from banks	1,253	-	-	1,253
- Loans and advances to customers	11,586	26,057	56,435	94,078
- Investment securities at FVOCI (Debt)	186	-	-	186
- Loan commitments and financial guarantees	2,442	7,297	-	9,739
- Acceptances	78	18	-	96
- Unutilised	1,891	1,192	-	3,083
- Interest accrued	59	136	-	195
Total net exposure	17,495	34,700	56,435	108,630

7. Loans, advances and financing to customers *(continued)*

vi. Financial assets and financial liabilities *(continued)*

(e) Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

RO'000

31 December 2020	Notes	FVTPL	FVOCI – equity instruments	FVOCI – debt instrument	Amortised cost	Total carrying amount
Cash and balances with CBO	*5*	**-**	**-**	**-**	**208,836**	**208,836**
Loans and advances to banks	*6*	**-**	**-**	**-**	**121,522**	**121,522**
Loans and advances to customers	*7*	**-**	**-**	**-**	**3,265,488**	**3,265,488**
Investment securities	*8*	**4,120**	**3,276**	**114,819**	**335,602**	**457,817**
Other assets	*11*	**14,364**	**-**	**-**	**160,295**	**174,659**
		18,484	**3,276**	**114,819**	**4,091,743**	**4,228,322**
Due to banks	*12*	**-**	**-**	**-**	**451,955**	**451,955**
Deposits from customers	*13*	**-**	**-**	**-**	**2,861,315**	**2,861,315**
Subordinated liabilities	*15*	**-**	**-**	**-**	**35,000**	**35,000**
Other liabilities	*14*	**10,522**	**-**	**-**	**184,563**	**195,085**
		10,522	**-**	**-**	**3,532,833**	**3,543,355**

Other assets include RO 18.48 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 10.59 million.

31 December 2019	Notes	FVTPL	FVOCI – debt instruments	FVOCI – equity instrument	Amortised cost	Total carrying amount
Cash and balances with CBO	*5*	-	-	-	300,405	300,405
Loans and advances to banks	*6*	-	-	-	471,158	471,158
Loans and advances to customers	*7*	-	-	-	3,063,350	3,063,350
Investment securities	*8*	4,263	3,643	70,370	300,275	378,551
Other assets	*11*	1,435	-	-	88,639	90,074
		5,698	3,643	70,370	4,223,827	4,303,538
Due to banks	*12*	-	-	-	490,179	490,179
Deposits from customers	*13*	-	-	-	2,943,188	2,943,188
Subordinated liabilities	*15*	-	-	-	63,875	63,875
Other liabilities	*14*	-	-	-	131,093	131,093
		-	-	-	3,628,335	3,628,335

Other assets includes RO 1.44 million of derivatives financial instruments mandatorily measured at FVPTL.

8 Investment securities

	2020 RO'000	2019 RO'000
Equity investments:		
Measured at FVTPL	**1,697**	1,884
Measured at FVOCI	**3,276**	3,643
Gross equity investments	**4,973**	5,527
Less: Impairment losses on investments	**-**	-
Net equity investments	**4,973**	5,527
Debt investments:		
Designated at FVTPL	**2,423**	2,379
Measured at FVOCI	**115,057**	70,556
Measured at amortized cost	**335,602**	300,275
Gross debt investments	**453,082**	373,210
Total investment securities	**458,055**	378,737
Less: Impairment loss allowance	**(238)**	(186)
Total investment securities	**457,817**	378,551
Investment securities measure as at FVTPL	**4,120**	4,263
Investment securities measured at FVOCI	**118,095**	74,013
Debt investments measured at amortised cost	**335,602**	300,275
	457,817	378,551

The movement of investment securities is summarised as below page 46 and 47.

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement

As at 31 December 2020	FVTPL	FVOCI	Amortized cost	Total
	RO'000	RO'000	RO'000	RO'000
Quoted Equities:				
Other services sector	-	998	-	998
Financial services sector	-	112	-	112
Industrial sector	-	1,593	-	1,593
	-	2,703	-	2,703
Unquoted Equities:				
Local securities	-	573	-	573
Unit funds	1,697	-	-	1,697
	1,697	573	-	2,270
Gross Equity investments	1,697	3,276	-	4,973
Quoted Debt:				
Government Bonds and sukuk	-	87,887	304,685	392,572
Foreign Bonds	2,423	403	-	2,826
Local bonds and sukuks	-	26,767	917	27,684
Treasury Bills	-	-	30,000	30,000
Gross debt investments	2,423	115,057	335,602	453,082
Total Investment Securities	4,120	118,333	335,602	458,055
Less: Impairment losses on investments	-	(238)	-	(238)
	4,120	118,095	335,602	457,817

Government Development Bonds and Sukuks represents Oman Government Bonds and Oman Sovereign sukuk having face value of RO 302.33 million (2019: RO 266.89 million) at average coupon rate of 5.247% to 5.055% maturing between 2020 and 2029.

Omani Treasury bills represents RO 30 million (2019: RO 30 million) average yield of 0.65% (2019: 1.99%).

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investment RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2020	**70,556**	**3,643**	**300,275**	**4,263**	**378,737**
Additions	**53,676**	**-**	**122,327**	**-**	**176,003**
Disposals and redemption	**(7,839)**	**-**	**(87,000)**	**(156)**	**(94,995)**
Gain /(loss) from change in fair value	**(1,271)**	**(367)**	**-**	**13**	**(1,625)**
Amortisation of discount and premium	**(65)**	**-**	**-**	**-**	**(65)**
At 31 December 2020	**115,057**	**3,276**	**335,602**	**4,120**	**458,055**
Less: Impairment losses on investments	**(238)**	**-**	**-**	**-**	**(238)**
31 December 2020	**114,819**	**3,276**	**335,602**	**4,120**	**457,817**

As at 31 December 2019	**FVTPL RO'000**	**FVOCI RO'000**	**Amortized cost RO'000**	**Total RO'000**
Quoted Equities:				
Other services sector	-	1,082	-	1,082
Unit funds	153	-	-	153
Financial services sector	-	155	-	155
Industrial sector -	-	1,685	-	1,685
	153	2,922	-	3,075
Unquoted Equities:				
Local securities	-	721	-	721
Unit funds	1,731	-	-	1,731
	1,731	721	-	2,452
Gross Equity investments	1,884	3,643	-	5,527
Quoted Debt:				
Government Bonds and sukuk	-	41,127	269,358	310,485
Foreign Bonds	2,379	393	-	2,772
Local bonds and sukuks	-	29,036	917	29,953
Treasury Bills	-	-	30,000	30,000
Gross debt investments	2,379	70,556	300,275	373,210
Total Investment Securities	4,263	74,199	300,275	378,737
Less: Impairment losses on investments	-	(186)	-	(186)
	4,263	74,013	300,275	378,551

The Bank has designated certain investments in equity instruments at FVOCI as these are investments that the bank plans to hold for long-term for strategic reasons.

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investments RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2019	45,413	4,118	250,927	4,140	304,598
Additions	50,418	7	179,371	88	229,884
Disposals and redemption	(26,948)	-	(130,023)	(77)	(157,048)
Gain /(loss) from change in fair value	1,681	(482)	-	112	1,311
Realised gain /(loss) on sale	(8)	-	-	-	(8)
At 31 December 2019	70,556	3,643	300,275	4,263	378,737
Less: Impairment losses on investments	(186)	-	-	-	(186)
31 December 2019	70,370	3,643	300,275	4,263	378,551

9. Intangible asset

31 December 2020	**Goodwill RO'000**
Cost	
1 January 2020	**397**
Impairment/amortisation charge during of the year	**(397)**
31 December 2020	**-**
Impairment/amortisation	
1 January 2020	**-**
Charge for the year	**397**
Disposals	**-**
31 December 2020	**397**
Carrying value	
31 December 2020	**-**

9. Intangible asset (Continued)

31 December 2019

	Goodwill RO'000
Cost	
1 January 2019	794
Additions	(397)
Disposals	-
31 December 2019	397
Impairment/amortisation	
1 January 2019	-
Charge for the year	397
Disposals	-
31 December 2019	397
Carrying value	
31 December 2019	397

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman during 2001 and merger with Majan International Bank during 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank. An impairment charge of RO 0.4 million (2019: 0.4 million) was recognised during the year.

10. Property and equipment

31 December 2020	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Right use of Asset RO'000	Total RO'000
Cost								
1 January 2020	**140**	**1,573**	**17,165**	**1,326**	**35,544**	**1,597**	**2,640**	**59,985**
Additions	**-**	**-**	**971**	**21**	**8,112**	**(471)**	**383**	**9,016**
Disposals	**-**	**-**	**(67)**	**(21)**	**-**	**-**	**(90)**	**(178)**
31 December 2020	**140**	**1,573**	**18,069**	**1,326**	**43,656**	**1,126**	**2,933**	**68,823**
Depreciation								
1 January 2020	**-**	**1,351**	**12,947**	**1,169**	**24,529**	**-**	**817**	**40,813**
Charge for the year	**-**	**59**	**1,429**	**104**	**4,401**	**-**	**676**	**6,669**
Disposals	**-**	**-**	**(66)**	**(21)**	**-**	**-**	**(17)**	**(104)**
31 December 2020	**-**	**1,410**	**14,310**	**1,252**	**28,930**	**-**	**1,476**	**47,378**
Carrying value								
31 December 2020	**140**	**163**	**3,759**	**74**	**14,726**	**1,126**	**1,457**	**21,445**

At of 31 December 2020, cost of computer and includes acquired software of RO 28.51 million (31 December 2019: RO 21.71 million). Accumulated depreciation against these software is RO 19.51million (31 December 2019: RO 13.66 million).

10. Property and equipment *(continued)*

31 December 2019	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Right use of Asset RO'000	Total RO'000
Cost								
1 January 2019	140	1,573	15,248	1,326	27,970	4,650	2,535	53,442
Additions	-	-	2,633	35	7,908	(3,053)	105	7,628
Disposals	-	-	(716)	(35)	(334)	-	-	(1,085)
31 December 2019	140	1,573	17,165	1,326	35,544	1,597	2,640	59,985
Depreciation								
1 January 2019	-	1,292	12,318	1,059	21,321	-	-	35,990
Charge for the year	-	59	1,307	145	3,368	-	817	5,696
Disposals	-	-	(678)	(35)	(160)	-	-	(873)
31 December 2019	-	1,351	12,947	1,169	24,529	-	817	40,813
Carrying value								
31 December 2019	140	222	4,218	157	11,015	1,597	1,823	19,172

11. Other assets

	2020 RO'000	2019 RO'000
Acceptances	**104,132**	55,567
Interest receivable	**42,126**	18,794
Prepaid expenses	**1,915**	1,710
Positive fair value of derivatives (note 30)	**14,364**	1,435
Deferred tax assets (note 24)	**5,341**	1,028
Other receivables	**14,437**	14,473
Less: impairment allowance	**(400)**	(195)
	181,915	92,812

12. Due to banks

	2020	2019
Syndicated Inter bank borrowings	**325,325**	192,500
Inter bank borrowings	**126,290**	297,368
Payable on demand	**340**	311
	451,955	490,179

At 31 December 2020, inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 30.80 million (2019: RO 38.88 million). The bank has complied with the financial covenant of its borrowing facilities during the year 2020 and 2019.

At 31 December 2020, inter bank borrowings with one bank individually represented 20% of the Inter bank's borrowings (2019: one bank, 20%). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

13. Deposits from customers – Conventional Banking

	2020 RO'000	2019 RO'000
Current accounts	**612,720**	621,320
Savings accounts	**487,924**	457,380
Time and certificate of deposits	**1,375,215**	1,449,677
Margin accounts	**12,194**	9,590
	2,488,053	2,537,967

Deposits from customers - Islamic Banking window

	2020	2019
Current accounts	**99,014**	112,498
Savings accounts	**53,456**	39,319
Time deposits	**220,792**	253,404
	373,262	405,221

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 845.16 million as at 31 December 2020 (2019: RO 1,160.6 million).

14. Other liabilities

	2020 RO'000	2019 RO'000
Acceptances	**104,132**	55,567
Interest payable	**11,686**	17,798
Creditors and accruals	**53,799**	42,325
Negative Fair Value of Derivative (note 30)	**10,522**	-
Lease liabilities	**671**	764
Employee terminal benefits (i)	**2,623**	1,721
Impairment allowance on off-balance sheet items (note 7) (ii)	**11,652**	12,918
	195,085	131,093

Impairment allowance on off-balance sheet items consists of Loan commitments and financial guarantees, Acceptances and Unutilised credit limit. Refer (note 7) (vi).

(i) Employee terminal benefits

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2020 RO'000	2019 RO'000
1 January	**1,721**	1,637
Charge for the year	**1,337**	299
Payments made during the year	**(435)**	(215)
	2,623	1,721

15 Subordinated loans

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

	2020 RO'000	2019 RO'000
Subordinated loan - RO (i) & (ii)	**35,000**	35,000
Subordinated loan - US Dollar (iii)	**-**	28,875
	35,000	63,875

i. During the year, Subordinated Loan (iii) of RO 28.875 million (USD 75 million) was repaid upon maturity.
ii. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenure of 66 months. This carries fixed interest rate of interest, payable half yearly with principal being repaid on maturity.
iii. Details regarding subordinated loan reserve are set out in note 18(b).

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate sensitivity of subordinated liabilities are disclosed in noted 32 (b).

16 (a) Share capital

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2019: 5,000,000,000 ordinary shares of RO 0.100 each).

At 31 December 2020, the issued and paid up share capital comprise 2,996,351,436 ordinary shares of RO 0.100 each (2019: 2,996,351,436 ordinary shares of RO 0.100 each).

Shareholders

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

	2020		2019	
	No. of shares	**%**	No. of shares	%
Dhofar International Development and Investment Company SAOG	**730,570,498**	**24.4%**	730,570,498	24.4%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**702,668,215**	**23.5%**	702,668,215	23.4%
Civil Service Employees' Pension Fund	**316,424,477**	**10.5%**	314,256,261	10.5%
Total	**1,749,663,190**	**58.4%**	1,747,494,974	58.3%
Others	**1,246,688,246**	**41.6%**	1,248,856,462	41.7%
	2,996,351,436	**100%**	2,996,351,436	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 70 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2020 and (2019 : RO 55 million)

16 (b) Perpetual Tier 1 Capital Securities

	2020	2019
	RO'000	RO'000
Tier 1 USD Securities	**115,500**	115,500
Tier 1 RO Securities	**40,000**	40,000
	155,500	155,500

Tier 1 USD Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300 million. The Tier 1 USD Securities are listed on Irish Stock Exchange.

The Tier 1 USD 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 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority. However, due to prevailing COVID-19 global pandemic and market conditions at that time, the Bank was not able to exercise the option at the First Call Date. After the first call date, the Bank has a semi-annual right to call the Capital Securities on any interest payment date, with the next possible call date being 27 May 2021.

16 (b) Perpetual Tier 1 Capital Securities *(continued)*

Tier 1 USD Securities *(continued)*

The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five-year reset period from the First Call Date starting from 27 May 2020 is the aggregate of the initial margin of 5.128 per cent per annum and the relevant 5-year reset rate (the mid-swap rate for U.S. Dollar swap transactions with a maturity of 5 years). The interest for the five-year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest will be payable semi – annually in arrears and treated as deduction from equity.

Tier 1 RO Securities

On 27 December 2018, the Bank issued additional Perpetual Tier 1 Capital Securities (the "Tier 1 RO Securities"), amounting to RO 40 million. The Tier 1 RO Securities are listed on Muscat Securities Market.

The Tier 1 RO 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 RO Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50%. Thereafter the interest rate will be reset at five year intervals. Interest is payable semi-annually in arrears and treated as deduction from equity

The Bank at its sole discretion may elect not to distribute interest on both perpetual Tier 1 capital securities and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 USD Securities and/or Tier 1 RO Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 USD Securities and Tier 1 RO Securities unless and until it has paid one interest payment in full on the Tier 1 USD Securities and Tier 1 RO Securities. The Tier 1 USD Securities and Tier 1 RO Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

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

Refer to the Critical Accounting Judgments and Key Sources Of Estimation Uncertainty in note 4.3

17 Share premium

i. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36.18 million and RO 18.09 million, respectively.

ii. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21.62 million and RO 17.95 million, respectively.

iii. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20 million and RO 19.60 million, respectively.

iv. In 2013, the shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to RO 13.31 million (133,114,993 shares of par value RO 0.100 each) from the share premium account.

v. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17.69 million and RO 53.08 million, respectively.

18 Reserves

(a) Legal reserve

	2020 RO'000	2019 RO'000
1 January	**58,966**	55,878
Appropriation for the year (i)	**3,059**	3,024
Increase in legal reserve (ii),	**-**	64
31 December	**62,025**	58,966

In accordance with the Commercial Companies Law of 2019, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(b) Subordinated loans reserve

	2020 RO'000	2019 RO'000
1 January	**42,875**	30,100
Appropriation for the year:		
Subordinated loan reserve	**7,000**	12,775
Transfer to retained earnings (refer note 15)	**(28,875)**	-
31 December	**21,000**	42,875

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(c) Investment revaluation reserve

The investment revaluation reserve comprises of the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

	2020 RO,000	2019 RO,000
1 January	**(627)**	(1,789)
Decrease /(increase) in fair value	**(1,743)**	1,162
31 December	**(2,370)**	(627)

18 Reserves *(continued)*

(d) Special reserve

During 2013, the Bank recognised in statement of comprehensive income , recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen its capital. Prior approval of CBO is required for any distribution from this 'special reserve account'.

During 2020, CBO has approved to distribute Ro 1 million from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to COVID-19.

(e) Special reserve – restructured loans

In accordance with Central Bank of Oman circular BSD/2018/BKUP/Bank and FLC's/467 dated 20 June 2018, the banks are required to create a special reserve of 15% for all restructured financing after the date of circular. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose of regulatory capital and dividend distribution.

Requirement to create special reserve at 15% has been dispensed on immediate effect based on Central Bank of Oman circular BSD/CB/FLC/2019/15 dated 18 November 2018.

(f) Special Impairment reserve IFRS 9

CBO circular BM 1149 requires the Bank to create a reserve for the difference between provisions under CBO norms and IFRS 9 when provisions, under CBO norms are higher than IFRS 9 provisions.

(g) Special investment revaluation reserve IFRS 9

From 1 January 2018, the Bank classified its portfolio of equity investments as FVOCI (elected). Certain investments were previously impaired, with the impairment allowance of RO 0.71 million charged to statement of comprehensive income . A one off adjustment was recorded on 1 January 2018 to retained earnings to account this as part of transition adjustments of the Bank under IFRS 9. This reserve will be released to retained earnings on disposal of investments.

19 Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

20 Net assets per share

Net assets per share are calculated by dividing net assets attributable to equity holders of the Bank at the year-end by the number of shares outstanding at 31 December as follows:

	2020	2019
Net assets (RO)	**540,364,000**	530,655,000
Number of shares outstanding at 31 December	**2,996,351,436**	2,996,351,436
Net assets per share (RO)	**0.180**	0.177

21 Net interest income

Conventional Banking	**2020** **RO'000**	2019 RO'000
Loans and advances	**149,621**	153,126
Due from banks	**8,478**	16,534
Investments	**16,845**	12,465
Total	**174,944**	182,125

	2020 **RO'000**	2019 RO'000
Islamic Banking		
Islamic financing receivables	**26,983**	23,851
Islamic due from banks	**23**	153
Investments	**3,304**	2,236
Total	**30,310**	26,240

22. Interest expense / profit distribution to depositors

	2020 **RO'000**	2019 RO'000
Conventional Banking		
Customers' deposits	**68,988**	69,468
Subordinated liabilities / mandatory convertible bonds	**2,479**	3,578
Bank borrowings	**11,258**	12,439
Total	**82,725**	85,485
Islamic Banking		
Customer Deposits	**12,996**	12,343
Islamic bank borrowings	**1,893**	1,479
Total	**14,889**	13,822

Included in interest expenses on deposits from customers and related parties is interest on subordinated loan against related parties and customer of RO 2.48 million (2019: RO 3.58 million). Interest expense on customer's deposits include cost of prize schemes of RO 2 million of Conventional banking and RO 0.78 million of Islamic Banking (2019: RO 1.8 million of Conventional banking and RO 0.66 million of Islamic Banking) offered by the Bank to its savings deposit holders.

22 (a) Other operating income

	2020 RO'000	2019 RO'000
Foreign exchange	**6,841**	4,268
Investment income *22 (b)*	**336**	444
Miscellaneous income	**1,587**	1,967
	8,764	6,679

(b) Investment income		
Dividend income	**222**	289
Gain on disposals	**114**	155
	336	444

23 Staff and administrative costs

(a) Staff costs

	2020 RO'000	2019 RO'000
Salaries and allowances	**35,026**	36,205
Other personnel costs	**5,102**	11,294
Non-Omani employees terminal benefit	**1,328**	299
	41,456	47,798

At 31 December 2020, the Bank had 1,522 employees (2019: 1,586 employees).

(b) Administrative costs

Occupancy costs	**3,388**	4,003
Operating and administration cost	**12,734**	12,069
Impairment of goodwill	**397**	397
Others	**435**	1,511
	16,954	17,980
Total staff and administrative cost	**58,410**	65,778

24 Income tax

(a) Income tax expense:

	2020	2019
	RO'000	RO'000
Current tax		
Current year charge	**6,632**	4,895
Prior years	**3,019**	331
	9,651	5,226
Deferred tax		
Current year	**(1,085)**	609
Prior years	**(3,228)**	13
	(4,313)	622
Tax expense for the year	**5,338**	5,848

Interest on Additional Tier 1 Securities is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2020. The Tax Authority ("TA") has completed the assessment for the years 2015 to 2017 wherein the TA has disallowed interest on Additional Tier 1 Securities. The Bank would pursue the matter further by filing an Objection with the TA. However, on a conservative basis, the Bank has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

The tax rate applicable to the Bank is 15% (2019: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 14.86 % (2019: 16.20%).

The difference between the applicable tax rate of 15% (2019: 15%) and effective tax rate of 14.86 % (2019: 16.20 %) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 35.92 million (2019: RO 36.1 million) and the taxation charge in the consolidated financial statements is as follows:

	2020	2019
	RO'000	RO'000
Profit before tax	**35,923**	36,092
Income tax as per rates mentioned above	**5,388**	5,414
Tax exempt revenue	**(23)**	(43)
Non-deductible expenses	**182**	146
Current tax Prior years	**3,019**	331
Deferred tax - prior years	**(3,228)**	-
Tax expense for the year	**5,338**	5,848

24 Income tax *(continued)*

(c) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2019 - 15%).
Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Impairment allowance on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax liability are as follows:

Particulars	**2020**	**Recognised in SCI**	**2020**	**Recognised in SOCI**
	RO '000		***RO '000***	
Property and equipment	**(496)**	**(231)**	**(727)**	**-**
Impairment allowance on financial instruments	**1,200**	**4,777**	**5,977**	**-**
Investment revaluation reserve (Non listed)	**121**	**-**	**121**	**-**
Fair value derivatives	**(96)**	**-**	**(96)**	**-**
Special impairment reserve for loan loss IFRS 9	**(1)**	**-**	**-**	**2,151**
Provision for legal claim	**375**	**(195)**	**180**	**-**
Right of Use Asset and Finance Liability	**(75)**	**(43)**	**(119)**	**-**
investment carried at fair value through profit and loss account	**-**	**5**	**5**	**-**
Net deferred tax asset/(liability)	**1,028**	**4,313**	**5,341**	**2,151**

Particulars	2019	Recognised in SCI	Recognised in SOCI	2019
	RO '000			*RO '000*
Property and equipment	(294)	(202)	-	(496)
Impairment allowance on financial instruments	1,920	(720)	-	1,200
Investment revaluation reserve (Non listed)	121	-	-	121
Fair value derivatives	(96)	-	-	(96)
Special impairment reserve for loan loss IFRS 9	(623)	-	622	(1)
Provision for legal claim	-	375	-	375
Right of Use Asset and Finance Liability	-	(75)	-	(75)
Net deferred tax asset/(liability)	1,028	(622)	622	1,028

(d) **Status of previous year returns:**

The tax assessments of the Bank up to and including the Tax Year 2017 has been assessed and finalized by the TA. The Bank is in the process of filing an Objection with the TA for disallowance of Interest on Additional Tier 1 Securities for the tax years 2015 to 2017. The tax assessment of the Bank for the Tax Years 2018 and 2019 is yet to be taken up by the TA. The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2020.

Tax liability

The movement in the income tax liability is summarised as follows:

	2020	2019
	RO'000	RO'000
At 1 January	**11,355**	13,810
Charge for the year	**9,605**	5,226
Additional provision made	**47**	-
Payments during the year	**(3,203)**	(7,681)
At 31 December	**17,804**	11,355

25 Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2020	2019
	RO	RO
Profit for the year (RO)	**30,585,000**	30,244,000
Less : Additional Tier 1 Coupon	**(10,144,000)**	(10,912,000)
Profit for the period attributable to equity holders of the Bank	**20,441,000**	19,332,000
Weighted average number of shares outstanding during the year	**2,996,351,436**	2,996,351,436
Earnings per share basic and diluted (RO)	**0.007**	0.006

Earnings per share (basic and diluted) have been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

26 Related parties transactions

In the ordinary course of business, the Bank conducts certain transactions on mutually agreed terms with its Directors, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2020	2019
	RO'000	RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**51,274**	42,445
Other related parties	**24,829**	25,755
	76,103	68,200
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**15,000**	23,663
Other related parties	**14,000**	19,775
	29,000	43,438
Deposits and other accounts		
Directors and shareholders holding 10% or more interest in the Bank	**265,198**	125,597
Other related parties	**159,109**	213,739
	424,307	339,336
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**3,840**	3,305
Other related parties	**5,186**	5,201
	9,026	8,506

26 Related parties transactions *(continued)*

Remuneration paid to Directors	**2020**	2019
Chairman	**RO'000**	RO'000
– remuneration paid	**36**	15
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**264**	100
– sitting fees paid	**78**	75
	388	200
Other transactions		
Rental payment to related parties	**554**	564
Other transactions	**2,734**	2,894
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**50**	48
Key management compensation		
salaries and other short-term benefits	**1,601**	1,740

The Bank conducts certain transactions with its Directors, the interest rates on loan and advances start ranges from 0% to 7.55% (2019: 0% to 7%). and for Deposits the interest rates ranges from 0% to 5.00% (2019: 0% to 4.85%.)

27 Single borrower and senior members

	2020	2019
	RO'000	RO'000
(a) Single borrower		
Total direct exposure	**235,966**	157,798
Number of members	**2**	4
(b) Senior members		
Total exposure:		
Direct	**99,599**	74,534
Indirect	**9,255**	8,507
	108,854	83,041
Number of members	**42**	47

28 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit, guarantees and other commitments provided by the Bank to the customers are as follows:

	2020	2019
	RO'000	RO'000
Letters of credit	**67,981**	88,954
Guarantees and performance bonds	**593,510**	721,976
	661,491	810,930

28 Contingent liabilities and commitments *(continued)*

At 31 December 2020, letters of credit, guarantees and other commitments amounting to RO 216.31 million (2019: RO 264.70 million) are counter guaranteed by other banks.

At 31 December 2020, the unutilised limits towards the loans, advances and financing to customer amount to RO 850.90 million (2019: 786.98 million).

(b) Capital and investment commitments

Contractual commitments for property and equipment	**9,426**	4,269

(c) Non-cancellable leases

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options

From 1 January 2019, the Bank has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 36 for further information.

	2020	2019
	RO'000	RO'000
Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:		
Within one year	**2,292**	2,014
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	2,292	2,014

Rental expense relating to leases

	2020	2019
	RO'000	RO'000
Minimum lease payments	**1,695**	2,440
Contingent rentals	**-**	-
Total rental expense relating to leases	**1,695**	2,440

(d) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2020. In cases where no provisions have been made, professional advice indicates that it is unlikely that any significant loss will arise.

29 Disaggregation of net fees and commission income 2020

	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	3,863	-	168	4,031
Trade services	10	6,619	445	7,074
Syndication and other financing related services	759	2,523	256	3,538
Advisory and asset management services	-	64	261	325
Net fee and commission income	4,632	9,206	1,130	14,968

The total net fee and commission income of RO 14.97 million includes service charges income of RO 1.38 million included under other income as miscellaneous income (note 22). The reversal of long outstanding provision & written back of other assets is RO 0.21 million.

Disaggregation of net fees and commission income 2019

	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	3,400	-	62	3,462
Trade services	13	8,130	279	8,422
Syndication and other financing related services	862	2,608	202	3,672
Advisory and asset management services	-	263	209	472
Net fee and commission income	4,275	11,001	752	16,028

The total net fee and commission income of RO 16.03 million includes service charges income of RO 1.80 million included under other income as miscellaneous income (note 22). The reversal of long outstanding provision & written back of other assets is RO 0.16 million.

30 Derivative financial instruments

The Bank uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

30 Derivative financial instruments *(Continued)*

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2020						**RO 000's**
	Positive fair value	**Negative Fair Value**	**Notional amount total**	**Notional amounts by term to maturity within 3 months**	**4-12 months**	**> 12 months**
Derivatives:						
Interest rate swaps	**-**	**9,615**	**185,385**	**-**	**-**	**185,385**
IRS customer	**9,615**	**-**	**185,385**	**-**	**-**	**185,385**
Forward purchase contracts	**4,749**	**-**	**-**	**478,011**	**460,750**	**90,360**
Forward sales contracts	**-**	**907**	**-**	**476,818**	**456,977**	**88,550**
Total	**14,364**	**10,522**	**370,770**	**954,829**	**917,727**	**549,680**

31 December 2019						**RO 000's**
	Positive fair value	**Negative Fair Value**	**Notional amount total**	**Notional amounts by term to maturity within 3 months**	**4-12 months**	**> 12 months**
Derivatives:						
Interest rate swaps	-	3,419	83,244	-	-	83,244
IRS customer	3,419	-	83,244	-	-	83,244
Currency options bought	-	-	-	321	-	-
Currency options sold	-	-	-	321	-	-
Forward purchase contracts	3,150	-	-	587,197	495,420	217,042
Forward sales contracts	-	1,715	-	586,747	491,890	213,490
Total	6,569	5,134	166,488	1,174,586	987,310	597,020

30 Derivative financial instruments *(Continued)*

The following table indicates the positive fair values of derivatives (net) associated with derivatives that are recognised in the statement of comprehensive income.

	Assets		Liabilities	
	2020	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000
Expected cash flows	**3,842**	1,435	**-**	-

31 Fair value information

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position (Level 3).

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cost**
	RO '000	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Financial assets					
Investments at FVOCI	**117,760**	**-**	**573**	**118,333**	**118,624**
Investments at FVTPL	**2,423**	**-**	**1,697**	**4,120**	**4,154**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**3,842**	**-**	**3,842**	**-**
Total	**-**	**3,842**	**-**	**3,842**	**-**
Total	**120,183**	**3,842**	**2,270**	**126,295**	**122,778**

At 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cost**
	RO '000	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Financial assets					
Investments at FVOCI	73,478	-	721	74,199	74,825
Investments at FVTPL	2,532	-	1,731	4,263	4,485
Derivative financial instruments					
Forward foreign exchange contracts	-	1,435	-	1,435	-
Total	-	1,435	-	1,435	-
Total	76,010	1,435	2,452	79,897	79,310

31 Fair value information *(Continued)*

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Group's level 3 investments:

Level 3 movement

	2020	2019
	RO 000's	RO 000's
At 1 January	**2,452**	2,383
Total losses	**(182)**	(19)
Purchases	**-**	88
Transfer from level 3	**-**	-
At 31 December	**2,270**	2,452

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Transfer between level 1 and level 2

There were no transfers between level 1 and level 2 of the fair value hierarchy during the year.

32 Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank's committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval of all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meeting.

32 Financial risk management (continued)

A. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the loans, advances and Islamic financing, amounts due from banks and investment in debt securities. Bank has an independent credit risk management function which identifies, assess and manages the credit risk at an individual or entity level. All the Corporate credit proposals are assessed independently by RMD before they are considered by the appropriate approving authorities. Bank has defined various levels of authorities for credit approval with Board Executive Committee being the final credit approving authority of the Bank and mainly responsible for approving all credit proposals beyond the authority level set for the management. This committee is also the final authority for approving investments beyond the set authority of the management. The Management Credit Committee (“MCC”) is the credit decision making body at the management level which is empowered to consider all credit related issues up to certain limit.

Bank has established robust credit risk management policies and procedures and a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio and monitors credit concentration limits.

Maximum counterparty/Bank exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using leading external rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines.

Impact of COVID-19

The outbreak of coronavirus (“COVID-19”) since early 2020, has caused disruption to business and economic activities throughout various geographies around the globe. COVID-19 has brought about uncertainties in the global economic environment and economic activities in many countries have almost come to a standstill, contracting the global output. As per IMF, the outlook for global growth is negative for 2020, indicating recession at least as bad as during the global financial crisis or worse. A gradual recovery is expected in 2021 subject to containment of the virus and strengthening of the health systems everywhere. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

The Government of Oman and Central Bank of Oman have taken slew of measures to control the pandemic and improve the economic conditions. The Bank is closely monitoring the situation and has undertaken various initiatives to manage the potential business disruption the COVID-19 outbreak may have on its operations and financial performance. This entails activating business continuity plan by enabling workforce to work from home using the Bank’s agile technological infrastructure, reviewing counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The investment and set-up of digital technology offering supported maintaining customer service and experience during these trying times.

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 have been given both to the effects of COVID-19 and the government support measures being undertaken.

In response to COVID-19 situation, CBO issued the guidelines in March 2020 to provide the necessary support to affected borrowers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of loan instalments/ interest/ profit for affected borrowers for one year up to 31 March 2021. In line with the CBO guidelines, Bank considered deferment for all eligible borrower (who have requested for deferment), as short-term liquidity support to address the borrower’s potential cash flow issues. The deferrals have been allowed to only customers whose cash flows have been impacted by the COVID-19 situation and backed by specific requests from them. For such cases, every review includes an assessment on whether

32. Financial risk management

A. Credit risk *(continued)*

the cash flow issues observed are on account of the COVID-19 impact or otherwise and in case these are identified to be otherwise, the accounts are suitably staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9. The Bank continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk. The outstanding of the loans, who have applied under deferment as at 31 December 2020 amounts to RO 1.21 million and constitutes 37% of the total loans and advances. Bank has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience. Overall, total ECL to total credit exposures have increased from 2.04% as at 31 December 2019 to 2.79% as at December 2020. Additionally, the CBO has also advised to suspend the calculation of interest for laid off employees of private sector for a period of 12 months.

Bank 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. This has resulted in staging downgrade of certain exposures and recognition of additional ECL provisions and impairment allowances as disclosed in note 7 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposures are undertaken on selective basis duly supported by the cash flows that that can be firmly established and the requirements are considered with proper monitoring mechanism.

The uncertainties caused by COVID-19, and the volatility in oil prices have made management to update the inputs used for the determination of expected credit losses ("ECLs"). ECLs were estimated based on a range of forecasts for economic conditions as at that date and 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. The macro-economic variables for estimation of forward looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factor (called as Cyclicality Index) used is determined from the observed historical macro-economic factors. The cyclicality index is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated and correlation is observed between the Cyclicality index and macro-economic factors. The forward-looking macro-economic factors were revised twice during the year 2020, in line with the revision of projections by the IMF. The revision made in the macro-economic indicators during last year is provided as under:

	Real GDP growth (%)				Oil revenue (%GDP)		
	As at Dec-19	**As at Jun-20**	**As at Dec-20**		**As at Dec-19**	**As at Jun-20**	**As at Dec-20**
Present	2.10%	0.50%	0.50%		31.08%	29.40%	29.40%
Year 1	1.10%	-2.80%	-10.00%		27.07%	20.37%	21.72%
Year 2	6.20%	3.00%	-0.50%		25.43%	23.42%	24.94%
Year 3	2.80%	3.00%	11.00%		24.74%	24.72%	24.27%

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage, as the situation is fast evolving and Bank has already considered the conservative estimates of macro-economic indicators as base case, as highlighted in the above table. As per the revised estimates provided by different agencies, the real GDP growth projections have improved considerably.

32. Financial risk management

A. Credit risk *(continued)*

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its usual model refinement exercise. Other than changes in the macro-economic indicators, Bank has not considered any other change in ECL model. The Bank has accounted for an additional ECL of approximately OMR 12 million during 2020 due to the revisions to macro-economic indicators. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. In order to meet any additional challenge, Bank has considered additional ECL overlays, based on the management experience and close monitoring of the customers with significant increase in credit risk. The management overlay (over and above the ECL impacted due to macro-economic indicators) made in estimating the reported ECL as at 31 December 2020 are set out in the following table:

Type of Portfolio	Modelled ECL (RO 000's)	Post-model adjustments (PMAs) and Management overlays (RO 000's)	Total ECL (RO 000's)	Adjustments as a % of Total ECL
Corporate	65,646	11,283	76,929	14.7%
SME	7,582	58	7,640	0.8%
Retail	41,870	1,005	42,875	2.3%
Other	4,868	-	4,868	0%
Total	**119,966**	**12,346**	**132,312**	**9.3%**

The ECL as at 31 December 2019 are set out in the following table:

Type of Portfolio	Modelled ECL (RO 000's)	Post-model adjustments (PMAs) and management overlays (RO 000's)	Total ECL (RO 000's)	Adjustments as a % of total ECL
Corporate	52,145	2,457	54,602	4.5%
SME	6,931	-	6,931	0.0%
Retail	41,484	-	41,484	0.0%
Others	5,613	-	5,613	0.0%
Total	106,173	2,457	108,630	2.3%

The total ECL amount has increased from OMR 108.630 million as at 31.12.2019 to OMR 132.312 million as at 31.12.2020. Thus ECL has increased by OMR 23.682 million (21.8%) during 2020.

Sensitivity of ECL to future economic conditions

Bank is currently using three scenarios viz., Base case, Upside and Downside and weightage of 50%, 25% and 25% respectively is applied to estimation the ECL. The below table provides the impact on ECL on major assets, if weight of 100% is applied to Base case and Downside scenarios.:

Amount RO 000's

Scenarios	**ECL for**				**Total**
	Loans and advances (RO 000's)	**Islamic financing receivables (RO 000's)**	**Investment securities carried at amortised cost (RO 000's)**	**Other Portfolio(RO 000's)**	**(RO 000's)**
Scenarios currently used by Bank	**106,851**	**7,322**	**238**	**4,868**	**119,279**
100% Base case scenario	**109,326**	**7,700**	**258**	**4,971**	**122,255**
100% Downside scenario	**118,412**	**8,945**	**330**	**5,356**	**133,043**

32. Financial risk management

A. Credit risk *(continued)*

The above table reveals that in case of 100% downside scenario, the ECL may increase by OMR 13.76 million from the current position.

Accounting for modification loss

In case of Corporate customers, the Bank plan to add the simple interest accrued during the deferral period to the principal outstanding and either extend the original maturity period of the loan or increase the instalments at the end of the Deferment Period. The Bank has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not resulted in de-recognition of financial assets.

However, this resulted in the Bank recognizing no material modification loss during the year ended 31 December 2020, which was presented as part of net financing income.

Analysis on the deferment benefits used by the Borrowers
The following table contains an analysis of all the accounts which are availing deferment benefits as on 31 December 2020

A: Segment-wise analysis of Retail borrowers benefiting from deferred payments

Amount RO 000's

Customer Type	Outstanding	Total Deferred loans	ECL
Retail category 1	528,325	6,557	4,398
Retail category 2	71,944	2,097	1,859
Total	**600,269**	**8,653**	**6,258**

*Category 1 are customers with regular salary
** Category 2 are customers with irregular salary

32. Financial risk management

A. Credit risk *(continued)*

Sector-wise analysis of Corporate borrowers benefiting from deferred payments

	RO ('000)	Construction	Services	Manufacturing	Transport & Communication	All others	Total
Stage 1	Outstanding	281,657	51,172	42,654	1,756	75,272	**452,511**
	Deferred Amount	24,979	4,074	11,404	676	16,254	**57,387**
	Interest / Deferred Profit	6,196	1,951	734	58	1,676	**10,615**
	ECL	2,693	366	951	6	548	**4,564**
Stage 2	Outstanding	126,180	88,243	51,122	25,921	184,161	**475,627**
	Deferred Amount	47,938	14,429	31,356	7,172	22,529	**123,424**
	Interest / Deferred Profit	3,834	1,551	532	36	11,643	**17,596**
	ECL	12,710	5,751	1,359	587	15,329	**35,736**
Stage 3	Outstanding	2,092	66	-	-	847	**3,005**
	Deferred Amount	722	40	-	-	8	**770**
	Interest / Deferred Profit	26	3	-	-	28	**57**
	ECL	694	29	-	-	469	**1,192**
Total	Outstanding	**409,929**	**139,481**	**93,776**	**27,677**	**260,280**	**931,143**
	Deferred Amount	**73,639**	**18,543**	**42,760**	**7,848**	**38,791**	**181,581**
	Interest / Deferred Profit	**10,056**	**3,505**	**1,266**	**94**	**13,347**	**28,268**
	ECL	**16,097**	**6,146**	**2,310**	**593**	**16,346**	**41,492**

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. As per the Prudential filter, the Tier II capital of the Bank will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on 31 December 2019 is considered "Base Year Amount" and will continue to get earlier phase out arrangement (ie 40% for 2020 and 20% for 2021) and
- The incremental ECL (ie Stage 2 ECL at a respective reporting date minus stage 2 ECL as at 31 December 2019) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (like 40% in 2021, 60% in 2022 etc)

The Tier II Capital has improved by 0.09% due to application of the above prudential filter.

Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank will continue to monitor and respond to all solvency and liquidity requirements. As at the reporting date the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

Liquidity and Market Risk:

CBO also issued guidelines to support liquidity in Oman banking sector, which inter-alia include reducing the interest rate on repo operations by 75 basis points, increasing the tenor of repo operations up to a maximum of three months, decreasing

32. Financial risk management

A. Credit risk *(continued)*

Liquidity and Market Risk *(continued):*

interest rate on discounting of government treasury bills by 100 basis points, reducing the interest rate on foreign currency swap operations by 50 basis points and increasing the tenor of swap facility up to a maximum period of six months. As at 31st December 2020, Bank is not availing any such liquidity support and the liquidity and funding position of the Bank remain well placed to absorb and manage the impacts of this disruption. The Bank has revised its risk management guidelines in light of the current situation on managing market risk, wherein the limits on interest rate risk on economic value of equity has been revised and more focus has been placed on forex risk exposure.

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000 thousand. The Tier 1 USD Securities are listed on Irish Stock Exchange. The Tier 1 USD 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 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

There is no material impact on the valuation of the equity and debt investments. However, the valuation of some debt investments (Sukuk/ bonds) have been impacted. The fair value of such Sukuk as at 31 December 2020 amounted to RO 1.74 million (31 December 2019: RO Nill million).

1. Credit Exposure

The following table sets out the Credit Exposure to customers of the Bank:

(i) Geographical concentrations

	Assets			Liabilities		
	Gross loans, advances and financing to banks RO'000	**Gross loans, advances and financing to customers RO'000**	**Investment securities RO'000**	**Deposits from customers RO'000**	**Due to banks RO'000**	**Contingent liabilities RO'000**
31 December 2020						
Sultanate of Oman	**60,050**	**3,409,665**	**455,229**	**2,859,807**	**16,679**	**564,923**
Other GCC countries	**11,507**	**-**	**2,105**	**1,224**	**403,706**	**35,450**
Europe and North America	**21,081**	**110**	**-**	**4**	**31,570**	**44,713**
Africa and Asia	**29,338**	**-**	**721**	**280**	**-**	**16,405**
	121,976	**3,409,775**	**458,055**	**2,861,315**	**451,955**	**661,491**
31 December 2019						
Sultanate of Oman	87,202	3,181,597	375,965	2,941,485	85,704	688,744
Other GCC countries	209,776	-	2,076	1,390	352,692	32,321
Europe and North America	103,914	-	-	4	26,950	56,858
Africa and Asia	71,519	-	696	309	24,833	33,007
	472,411	3,181,597	378,737	2,943,188	490,179	810,930

Other assets and liabilities are predominately concentrated in the Sultanate of Oman.

32. Financial risk management

A. Credit risk *(continued)*

(ii) Customer concentrations

	Assets			Liabilities		
	Gross loans, Advances and financing to banks	Gross Loans, Advances and financing to customers	Investment Securities	Deposits from customers	Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2020						
Personal	**-**	**1,259,193**	**-**	**704,019**	**-**	**173**
Corporate	**121,976**	**1,746,684**	**34,566**	**1,312,132**	**451,955**	**660,989**
Government	**-**	**403,898**	**423,489**	**845,164**	**-**	**329**
	121,976	**3,409,775**	**458,055**	**2,861,315**	**451,955**	**661,491**
31 December 2019						
Personal	-	1,286,585	-	641,452	-	3,875
Corporate	472,411	1,646,270	37,335	1,141,100	490,179	788,609
Government	-	248,742	341,402	1,160,636	-	18,446
	472,411	3,181,597	378,737	2,943,188	490,179	810,930

(iii) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities
	RO'000	RO'000	RO'000
31 December 2020			
Personal	**1,259,193**	**704,019**	**173**
International trade	**115,003**	**167,727**	**41,072**
Construction	**505,372**	**118,168**	**263,486**
Manufacturing	**167,666**	**68,610**	**42,754**
Wholesale and retail trade	**37,089**	**33,483**	**22,224**
Communication and utilities	**199,762**	**29,134**	**31,568**
Financial services	**186,129**	**77,006**	**217,021**
Government	**403,898**	**845,164**	**329**
Other services	**230,244**	**131,416**	**33,901**
Others	**305,419**	**686,588**	**8,963**
	3,409,775	**2,861,315**	**661,491**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(iii) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities
	RO'000	RO'000	RO'000
31 December 2019			
Personal	1,286,585	641,452	3,875
International trade	103,650	69,642	25,662
Construction	534,641	179,670	379,395
Manufacturing	184,372	42,017	44,491
Wholesale and retail trade	28,178	13,298	21,661
Communication and utilities	165,769	59,668	19,722
Financial services	146,916	89,089	236,531
Government	248,742	1,160,636	18,446
Other services	176,315	128,099	31,339
Others	306,429	559,617	29,808
	3,181,597	2,943,188	810,930

(iv) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2020	2019	**2020**	2019
	RO’000	RO’000	**RO’000**	RO’000
Overdrafts	**123,762**	137,827	**131,749**	158,227
Loans	**2,670,470**	2,425,730	**2,592,904**	2,448,399
Loans against trust receipts	**83,750**	109,865	**89,101**	101,088
Bills discounted	**39,089**	46,898	**41,180**	59,893
Advance against credit cards	**8,521**	9,450	**8,784**	9,207
Islamic Banking Window financing	**484,183**	451,827	**476,424**	423,868
Total	**3,409,775**	3,181,597	**3,340,142**	3,200,682

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(v) Geographical distribution of exposures:

	Sultanate of Oman	Other countries	Total
31 December 2020	RO'000	RO'000	RO'000
Overdrafts	**123,762**	**-**	**123,762**
Loans	**2,670,470**	**-**	**2,670,470**
Loans against trust receipts	**83,750**	**-**	**83,750**
Bills discounted	**4,752**	**110**	**4,862**
Advance against credit cards	**8,521**	**-**	**8,521**
Others	**34,227**	**-**	**34,227**
Islamic Banking Window financing	**484,183**	**-**	**484,183**
	3,409,665	**110**	**3,409,775**
31 December 2019			
Overdrafts	137,827	-	137,827
Loans	2,425,730	-	2,425,730
Loans against trust receipts	109,865	-	109,865
Bills discounted	10,334	-	10,334
Advance against credit cards	9,450	-	9,450
Others	36,564	-	36,564
Islamic Banking Window financing	451,827	-	451,827
	3,181,597	-	3,181,597

(vi) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts	Loans including Islamic financing	Bills discounted	Others	Total	Off balance sheet exposure
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2020						
Import trade	**9,466**	**89,563**	**-**	**8,142**	**107,171**	**35,723**
Export trade	**219**	**7,606**	**-**	**7**	**7,832**	**5,349**
Wholesale/retail trade	**3,976**	**30,585**	**-**	**2,528**	**37,089**	**22,224**
Mining and quarrying	**1,528**	**29,600**	**-**	**9**	**31,137**	**671**
Construction	**49,818**	**393,608**	**3,169**	**58,777**	**505,372**	**263,486**
Manufacturing	**17,804**	**111,072**	**1,302**	**37,488**	**167,666**	**42,754**
Electricity, gas and water	**1,104**	**194,872**	**-**	**419**	**196,395**	**25,646**
Transport and Communication	**983**	**2,070**	**-**	**314**	**3,367**	**5,922**
Financial institutions	**1,668**	**184,070**	**281**	**-**	**186,019**	**217,021**
Services	**17,305**	**210,153**	**-**	**2,786**	**230,244**	**33,901**
Personal loans	**1,767**	**1,249,166**	**-**	**8,260**	**1,259,193**	**173**
Agriculture and allied Activities	**3,888**	**8,848**	**-**	**2,620**	**15,356**	**1,079**
Government	**-**	**403,891**	**-**	**7**	**403,898**	**329**
Non-resident lending	**-**	**-**	**110**	**-**	**110**	**-**
Others	**14,236**	**239,549**	**-**	**5,141**	**258,926**	**7,213**
	123,762	**3,154,653**	**4,862**	**126,498**	**3,409,775**	**661,491**

32 Financial risk management *(continued)*

A. Credit risk *(Continued)*

(vi) Industry type distribution of exposures by major types of credit exposures:

31 December 2019

	Overdraft RO'000	Loans including Islamic Financing RO'000	Bills Discounted RO'000	Other RO'000	Total RO'000	Off Balance Sheet Exposure RO'000
Import trade	10,972	79,776	-	12,588	103,336	25,662
Export trade	188	121	-	5	314	59
Wholesale/retail trade	4,821	21,008	-	2,349	28,178	21,661
Mining and quarrying	1,859	16,723	162	13	18,757	619
Construction	53,015	399,072	4,683	77,871	534,641	379,395
Manufacturing	16,933	121,123	3,527	42,789	184,372	44,491
Electricity, gas and water	715	161,826	-	169	162,710	14,675
Transport and Communication	1,048	1,455	-	556	3,059	5,047
Financial institutions	1,248	143,728	1,940	-	146,916	236,531
Services	25,200	149,100	-	2,015	176,315	31,339
Personal loans	1,625	1,276,017	-	8,943	1,286,585	3,875
Agriculture and allied Activities	4,022	4,543	22	1,782	10,369	813
Government	-	248,739	-	3	248,742	18,446
Non-resident lending	-	-	-	-	-	
Others	16,181	254,326	-	6,796	277,303	28,317
	137,827	2,877,557	10,334	155,879	3,181,597	810,930

(vii) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2020 RO' 000	2019 RO' 000
Treasury bill	**30,000**	30,000
Loans, advances and financing to banks	**121,522**	471,158
Loan, advances and financing to customers	**3,265,488**	3,063,350
Government development bonds and Sukuk	**392,572**	310,485
Foreign bonds	**2,826**	2,772
Local bonds and sukuks	**27,684**	29,953
	3,840,092	3,907,718
Off-balance sheet items		
Financial guarantees	**593,510**	721,976
	4,433,602	4,629,694

As at 31 December 2020, Bank has total gross impaired loans of RO 154.56 (RO 148.58) million which includes interest reserved of RO 24.72 (2019: RO 24.17) million against principal outstanding of RO 129.85 (2019: RO 124.41) million expected credit losses of RO 68.23 (2019: RO 56.44) million have been carried.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(viii) Credit Quality Analysis

The financial assets have been segregated into various portfolios like exposure to Banks, Sovereign, Wholesale Banking and Retail customers. Exposure to Retail customer includes personal loans, housing loans and credit cards. Exposure to Wholesale Banking customer includes exposure other than retail and bank exposure.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2020

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
31 December 2020				
Exposure				
Banks	**418,316**	**401**	**-**	**418,717**
Sovereigns	**408,680**	**-**	**-**	**408,680**
Wholesale banking	**2,406,889**	**954,098**	**92,478**	**3,453,465**
Retail banking	**1,195,372**	**4,634**	**64,042**	**1,264,048**
Investments	**55,859**	**-**	**-**	**55,859**
Total	**4,485,116**	**959,133**	**156,520**	**5,600,769**
Provision for expected credit losses	**23,368**	**40,715**	**68,229**	**132,312**

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2019

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
31 December 2019				
Exposure				
Banks	734,029	3,080	-	737,109
Sovereigns	370,575	-	-	370,575
Wholesale banking	1,594,293	1,209,117	89,178	2,892,588
Retail banking	1,196,023	32,942	61,856	1,290,821
Investments	38,896	-	-	38,896
Total	3,933,816	1,245,139	151,034	5,329,989
Provision for Expected credit losses	17,495	34,700	56,435	108,630

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment

a. Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, a significant increase in credit risk cannot be assessed using forward looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Bank uses an internal risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

b. Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing loans (NPLs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2020 including the projections used is presented as under:

31 December 2020

Real GDP growth (%)	Present	0.50%	**Oil revenue (%GDP)**	Present	29.40%
	Year 1 Projection	-10.00%		Year 1 Projection	21.72%
	Year 2 Projection	-0.50%		Year 2 Projection	24.94%
	Year 3 Projection	11.00%		Year 3 Projection	24.27%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 15 years.

31 December 20219

Real GDP growth (%)	Present	2.10%	**Oil revenue (%GDP)**	Present	31.08%
	Year 1 Projection	1.10%		Year 1 Projection	27.07%
	Year 2 Projection	6.20%		Year 2 Projection	25.43%
	Year 3 Projection	2.80%		Year 3 Projection	27.74%

32 Financial risk management *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment *(continued)*

b. Economic variable assumptions *(continued)*

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2020, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	**ECL (RO' 000)**	**Impact on ECL due to Sensitivity (RO 000)**
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	119.280	
Sensitivity:		
ECL if only Upside case happens - 100% probability	99.562	(19.72)
ECL if only Base case happens - 100% probability	122.255	2.97
ECL if only Downside case happens - 100% probability	133.044	13.76

** for computation of ECL (ie actual estimates), Bank considers three scenario viz. base case, upside case and downside case with weightage of 50%, 25% & 25% respectively.

c. Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolios
(i) GDP, given the significant impact it has on mortgage collateral valuations; and

(ii) Oil price index, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Wholesale portfolios
(i) GDP, given the significant impact on companies' performance and collateral valuations; and

(ii) Oil Price Index, given its impact on companies' likelihood of default.

(iix) Loss Allowance

The following table presents the ECL for non-performing loans i.e. Exposure under Stage 3.

	No. of borrowers	**Exposure RO'000**	**Reserved interest RO'000**	**Net exposure RO'000**	**ECL RO'000**	**% of ECL RO'000**
31 December 2020						
Wholesale banking	**407**	**92,478**	**12,211**	**80,286**	**36,346**	**45.27%**
Retail banking	**3,708**	**64,042**	**12,508**	**51,539**	**31,882**	**61.86%**
Total	**4,115**	**156,520**	**24,719**	**131,825**	**68,228**	**51.76%**
31 December 2019						
Wholesale banking	209	89,178	10,152	79,026	28,488	36.0%
Retail banking	2,378	61,856	14,017	47,839	27,946	58.4%
Total	2,587	151,034	24,169	126,865	56,434	44.5%

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality

An analysis of credit quality of gross exposures as at 31 December 2020 and changes in gross exposure balances from 1 January 2019 to 31 December 2020 is set out in the following tables by class of financial assets

2020:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade (Aaa to Baa3)	23,972	-	-	23,972
Standard Grade (Ba1 to Ba2)	37,048	-	-	37,048
Satisfactory Grade (Ba3 to Caa3)	60,957	-	-	60,957
Total	**121,977**	**-**	**-**	**121,977**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	431,617	32,972	-	464,589
Standard Grade (Ba1 to Ba2)	822,863	220,101	-	1,042,964
Satisfactory Grade (Ba3 to Caa3)	147,694	404,796	-	552,490
Non-performing		-	90,535	90,535
Total	**1,402,174**	**657,869**	**90,535**	**2,150,578**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	1,085,927	-	-	1,085,927
Standard Grade (Ba1 to Ba2)	77,881	31	-	77,912
Satisfactory Grade (Ba3 to Caa3)	26,738	4,574	-	31,312
Non-performing	-	-	64,042	64,042
Total	**1,190,546**	**4,605**	**64,042**	**1,259,193**

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade (Aaa to Baa3)	2,423	-	-	2,423
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	**2,423**	**-**	**-**	**2,423**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	115,057	-	-	115,057
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**115,057**	**-**	**-**	**115,057**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	335,602	-	-	335,602
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**335,602**	**-**	**-**	**335,602**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	13,110	251	-	13,361
Standard Grade (Ba1 to Ba2)	80,552	1,719	-	82,271
Satisfactory Grade (Ba3 to Caa3)	3,976	4,524	-	8,500
Total	**97,638**	**6,494**	**-**	**104,132**

	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Unutilized / Amortised cost				
High Grade (Aaa to Baa3)	218,799	50,932	-	269,731
Standard Grade (Ba1 to Ba2)	270,701	59,329	-	330,030
Satisfactory Grade (Ba3 to Caa3)	76,072	68,087	-	144,159
Total	**565,572**	**178,348**	**-**	**743,920**

	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Letter of credit guarantee - Amortised cost*				
High Grade (Aaa to Baa3)	535,556	102,058	1,953	639,567
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	**535,556**	**102,058**	**1,953**	**639,567**

* includes Corporate & SME , Retail and Banks

	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Accrued Profit - Amortised cost*				
High Grade (Aaa to Baa3)	31,717	9,753	-	41,470
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	**31,717**	**9,753**	**-**	**41,470**

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

2019:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade (Aaa to Baa3)	184,633	-	-	184,633
Standard Grade (Ba1 to Ba2)	139,992	-	-	139,992
Satisfactory Grade (Ba3 to Caa3)	147,786	-	-	147,786
Total	472,411	-	-	472,411

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	336,218	93,264	-	429,482
Standard Grade (Ba1 to Ba2)	507,902	363,728	-	871,630
Satisfactory Grade (Ba3 to Caa3)	173,969	330,753	-	504,722
Non-performing	-	-	89,178	89,178
Total	1,018,089	787,745	89,178	1,895,012

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	539,902	-	-	539,902
Standard Grade (Ba1 to Ba2)	626,381	7,603	-	633,984
Satisfactory Grade (Ba3 to Caa3)	25,504	25,339	-	50,843
Non-performing	-	-	61,856	61,856
Total	1,191,787	32,942	61,856	1,286,585

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade (Aaa to Baa3)	2,379	-	-	2,379
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	2,379	-	-	2,379

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	70,556	-	-	70,556
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	70,556	-	-	70,556

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	300,275	-	-	300,275
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	300,275	-	-	300,275

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	15,395	1,802	-	17,197
Standard Grade (Ba1 to Ba2)	16,159	6,623	-	22,782
Satisfactory Grade (Ba3 to Caa3)	13,121	2,467	-	15,588
Sub Standard	-	-	-	-
Total	44,675	10,892	-	55,567

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Unutilized / Amortised cost				
High Grade (Aaa to Baa3)	257,614	124,175	-	381,789
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	257,614	124,175	-	381,789

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit guarantee - Amortised cost*				
High Grade (Aaa to Baa3)	524,725	283,753	2,452	810,930
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	524,725	283,753	2,452	810,930

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Profit - Amortised cost*				
High Grade (Aaa to Baa3)	13,535	4,690	-	18,225
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	13,535	4,690	-	18,225

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans

The following table presents the distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
31 December 2020							
Import trade	**104,339**	**2,832**	**2,075**	**693**	**544**	**107**	**523**
Export trade	**7,825**	**7**	**86**	**3**	**3**	**-**	**-**
Wholesale/retail trade	**28,146**	**8,943**	**325**	**3,601**	**1,033**	**(113)**	**-**
Mining and quarrying	**31,123**	**14**	**255**	**7**	**9**	**1**	**-**
Construction	**475,177**	**30,195**	**10,906**	**12,061**	**3,801**	**4,585**	**-**
Manufacturing	**166,871**	**795**	**1,764**	**315**	**207**	**98**	**-**
Electricity, gas and water	**196,395**	**-**	**848**	**-**	**-**	**-**	**-**
Transport and communication	**2,650**	**717**	**53**	**321**	**143**	**56**	**-**
Financial institutions	**186,019**	**-**	**726**	**-**	**-**	**-**	**-**
Services	**228,641**	**1,603**	**7,605**	**623**	**429**	**289**	**193**
Personal loans	**1,193,047**	**66,146**	**10,991**	**32,323**	**12,782**	**15,221**	**3,980**
Agriculture and allied activities	**15,346**	**10**	**87**	**5**	**5**	**-**	**-**
Government	**403,898**	**-**	**1,362**	**-**	**-**	**-**	**-**
Non-resident lending	**110**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**215,621**	**43,305**	**14,257**	**18,276**	**5,763**	**5,266**	**612**
	3,255,208	**154,567**	**51,340**	**68,228**	**24,719**	**25,510**	**5,308**

32 Financial risk management *(continued)*

B. Credit risk *(continued)*

(xi) Distribution of impaired loans

31 December 2019	**Performing loans RO'000**	**Non-performing loans RO'000**	**Expected Credit Loss for Stage 1 & 2 Exposure RO'000**	**Expected Credit Loss for Stage 3 Exposure RO'000**	**Interest reserve RO'000**	**Stage 3 Expected Credit Loss during the year RO'000**	**Advances written off during the year RO'000**
Import trade	96,476	6,860	786	1,369	4,080	515	1,059
Export trade	308	6	20	3	3	-	-
Wholesale/retail trade	19,067	9,112	2,547	3,564	337	3,777	4,908
Mining and quarrying	18,745	12	578	6	7	3	-
Construction	510,681	23,960	5,481	8,066	1,764	7,320	-
Manufacturing	183,671	701	1,541	221	256	203	-
Electricity, gas and water	162,671	39	1,230	9	4	-	-
Transport and communicatior	2,400	659	286	269	80	394	-
Financial institutions	146,916	-	944	-	-	-	-
Services	174,526	1,789	1,195	697	468	223	-
Personal loans	1,222,275	64,310	13,414	28,669	14,199	10,546	2,174
Agriculture and allied activitie	10,359	10	40	5	4	-	-
Government	248,742	-	8	-	-	-	
Non-resident lending	-	-	-	-	-	49	4,429
Others	236,178	41,124	9,573	13,557	2,967	12,571	-
	3,033,015	148,582	37,643	56,435	24,169	35,601	12,570

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans *(continued)*

The following table presents the distribution of impaired loans and gross loans by geographical distribution:

	Exposure to Stage 1 & 2 RO'000	**Exposure to Stage 3 RO'000**	**Stage 1 & 2 ECL RO'000**	**Stage 3 `ECL RO'000**	**Interest reserve RO'000**	**Stage 3 ECL during the year RO'000**	**Advances written off during the year RO'000**
31 December 2020							
Sultanate of Oman	**3,255,098**	**154,567**	**51,340**	**68,228**	**24,719**	**25,510**	**5,308**
Other countries	**110**	**-**	**-**	**-**	**-**	**-**	**-**
	3,255,208	**154,567**	**51,340**	**68,228**	**24,719**	**25,510**	**5,308**
31 December 2019							
Sultanate of Oman	3,033,015	148,582	37,643	56,435	24,169	35,601	8,141
Other countries	-	-	-	-	-		4,429
	3,033,015	148,582	37,643	56,435	24,169	35,601	12,570

Analysis of impairment and collateral

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2020 RO 000's	2019 RO 000's
Against individually impaired		
Property	**51,550**	37,996
Equities	**-**	-
Others	**1,019**	869
	52,569	38,865

32 Financial risk management *(continued)*

B. Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed of in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15%, 20% and 25% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2020						
Cash and balances with Central Bank of Oman	208,336	-	-	-	500	208,836
Loan and advances to customer	218,789	277,762	223,856	1,022,216	1,522,865	3,265,488
Loans and advances to banks	39,393	64,155	17,974	-	-	121,522
Investments FVTPL	-	-	4,120	-	-	4,120
Investments FVOCI Debt Instrument	-	-	-	40,060	74,759	114,819
Investments FVOCI-Equity	-	-	3,276	-	-	3,276
Investments at amortized cost	30,000	13,443	742	163,711	127,706	335,602
Intangible asset	-	-	-	-	-	-
Property and equipment	-	-	-	-	21,445	21,445
Other assets	42,236	68,311	35,821	-	35,547	181,915
Total Assets Funded	538,754	423,671	285,789	1,225,987	1,782,822	4,257,023
Total Assets Non Funded (Forward, Option and Commitments)	377,737	375,395	310,754	90,360	-	1,154,246
Total Assets Funded and Non Funded	916,491	799,066	596,543	1,316,347	1,782,822	5,411,269
Future Interest cash inflows	15,267	67,729	69,212	323,524	164,890	640,622
Due to banks	61,310	131,670	47,225	211,750	-	451,955
Deposits from customers	256,700	582,090	676,504	813,905	532,116	2,861,315
Other liabilities	54,417	68,828	36,448	5,563	47,633	212,889
Subordinated loans	-	-	-	35,000	-	35,000
Total equity**	-	-	-	-	695,864	695,864
Total liabilities and shareholders' equity	372,427	782,588	760,177	1,066,218	1,275,613	4,257,023
Total Liabilities Non Funded (Forward , Unutilized)	260,739	380,133	337,652	184,800	-	1,163,324
Total Liabilities Funded and Non Funded	633,166	1,162,721	1,097,829	1,251,018	1,275,613	5,420,347
Future Interest cash inflows	4,573	31,216	38,541	74,399	24,216	172,945
Cumulative Liabilities	633,166	1,162,721	1,097,829	1,251,018	1,275,613	
Gap	283,325	(363,655)	(501,286)	65,329	507,209	
Cumulative Gap	283,325	(80,330)	(581,616)	(516,287)	(9,078)	

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2019						
Cash and balances with Central Bank of Oman	299,905	-	-	-	500	300,405
Loan and advances to customer	248,200	347,818	165,902	791,902	1,509,528	3,063,350
Loans and advances to banks	224,416	181,404	39,126	26,212	-	471,158
Investments FVTPL	-	-	4,263	-		4,263
Investments FVOCI Equity	-	-	3,643	-		3,643
Investments FVOCI-Debt Instrument	-	-	-	34,245	36,125	70,370
Investments at amortized cost	79,844	10,074	57,681	75,691	76,985	300,275
Intangible asset	-	-	-	-	397	397
Property and equipment	-	-	-	-	19,172	19,172
Other assets	18,943	50,955	4,462	-	18,452	92,812
Total Assets Funded	**871,308**	**590,251**	**275,077**	**928,050**	**1,661,159**	**4,325,845**
Total Assets Non Funded (Forward, Option and Commitments)	**503,635**	**426,548**	**277,717**	**217,042**	**-**	**1,424,942**
Total Assets Funded and Non Funded	**1,374,943**	**1,016,799**	**552,794**	**1,145,092**	**1,661,159**	**5,750,787**
Future Interest cash inflows	**21,443**	**71,576**	**64,557**	**315,252**	**166,363**	**639,190**
Due to banks	239,929	77,000	-	173,250	-	490,179
Deposits from customers	235,674	681,756	567,155	908,479	550,124	2,943,188
Other liabilities	55,419	57,448	5,107	7,974	16,500	142,448
Subordinated loans	-	28,875	-	35,000	-	63,875
Total equity**	-	-	-	-	686,155	686,155
Total liabilities and shareholders' equity	**531,022**	**845,079**	**572,262**	**1,124,703**	**1,252,779**	**4,325,845**
Total Liabilities Non Funded (Forward , Unutilized)	**387,764**	**432,218**	**276,688**	**338,615**	**-**	**1,435,285**
Total Liabilities Funded and Non Funded	**918,786**	**1,277,297**	**848,950**	**1,463,318**	**408,380**	**5,761,130**
Future Interest cash inflows	**14,378**	**37,368**	**34,674**	**59,839**	**12,787**	**159,046**
Cumulative Liabilities	918,786	1,277,297	848,950	1,463,318	408,380	
Gap	456,157	(260,492)	(296,150)	(318,226)	1,252,779	
Cumulative Gap	456,157	195,659	(100,497)	(418,723)	834,056	

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. However, in view of current COVID-19 situation, CBO has temporarily allowed for a minimum LCR of 75% for Bank's Islamic window up to 31 December 2020, while minimum LCR of 100% is expected to be maintained at all times by the Bank. The Bank is in compliance of the regulatory limit of LCR as at 31st December 2020, with LCR of 201.47% calculated on weighted average value for the year (2019: 227.57%).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance. The Bank is meeting the regulatory limit of NSFR as at 31st December 2020, with a NSFR of 117.94% calculated on weighted average value for the year (2019: 122.17%).

The full report on LCR and NSFR is disclosed by the Bank in its website under the Investors Relations section.

32 Financial risk management *(continued)*

C. Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

I. Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

Foreign currency exposures

	2020	2019
	RO'000	RO'000
Net assets denominated in US Dollars	**116,648**	94,327
Net assets denominated in UAE Dirham (AED)	**78,386**	278
Net assets denominated in other foreign currencies	**618**	1,327
	195,652	95,932

II. Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		**+ or – 2%**	
	2020	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**8,242**	7,825	**16,483**	15,649
US Dollars	**4,401**	3,948	**8,803**	7,896
Others currencies	**35**	537	**71**	1,075
	12,678	12,310	**25,357**	24,620

The impact of statement in changes of equity due to interest rate risk in the banking book is not material to the financial statements

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. This is expected to impact current risk management strategy and possibly accounting for certain financial instruments. There is currently uncertainty around the timing and precise nature of these changes.

The Bank has Loans and Advances and Due from Banks , Due to Banks, Perpetual Tier I capital securities, Interest rate swaps, which are exposed to the impact of LIBOR.

The Bank has adopted the Phase 1 of Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019 in the previous year. The amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

32 Financial risk management *(continued)*

C. Market risk *(continued)*

III. **Interest rate risk** *(continued)*

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2020								
Cash and balances with Central Bank of Oman	0.1%	105,875	-	-	-	500	102,461	208,836
Loans, advances and financing to banks	3.5%	41,226	79,160	-	-	-	1,136	121,522
Loans, advances and financing to customers	5.7%	493,508	1,451,032	91,829	640,631	588,488	-	3,265,488
Investments - FVTPL		-	-	-	-	-	4,120	4,120
Investment – FVOCI Equity		-	-	-	-	-	3,276	3,276
Investment FVOCI – Debt Instrument	6.5%	-	-	-	40,060	74,759	-	114,819
Investments at amortized cost	4.8%	30,000	6,047	-	207,779	91,776	-	335,602
Intangible asset		-	-	-	-	-	-	-
Property and equipment		-	-	-	-	-	21,445	21,445
Other assets		-	-	-	-	-	181,915	181,915
Total assets		670,609	1,536,239	91,829	888,470	755,523	314,353	4,257,023
Due to banks	2.5%	61,310	131,670	47,225	211,750	-	-	451,955
Deposits from customers	3.0%	226,779	505,383	1,110,342	505,018	142,344	371,449	2,861,315
Other liabilities		-	-	-	-	-	212,889	212,889
Subordinated loan	6.1%	-	-	-	35,000	-	-	35,000
Shareholders' equity		-	-	-	-	-	695,864	695,864
Total liabilities and Equity**		288,089	637,053	1,157,567	751,768	142,344	1,280,202	4,257,023
On-balance sheet gap		382,520	899,186	(1,065,738)	136,702	613,179	(965,849)	
Cumulative interest sensitivity gap		382,520	1,281706	215,968	352,670	965,849	-	

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. Interest rate risk *(continued)*

Interest rate sensitivity gap *(continued)*

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2019								
Cash and balances with Central Bank of Oman	1.2%	98,175	-	-	-	500	201,730	300,405
Loans, advances and financing to banks	3.8%	224,162	181,404	39,128	26,212	-	252	471,158
Loans, advances and financing to customers	5.7%	512,781	1,204,195	113,202	659,603	573,569	-	3,063,350
Investments - FVTPL		-	-	4,263	-	-	-	4,263
Investment – FVOCI Equity		-	-	3,643	-	-	-	3,643
Investment FVOCI – Debt Instrument	6.4%	-	-	-	34,245	36,125	-	70,370
Investments at amortized cost	4.1%	79,844	2,167	48,656	105,066	56,635	7,907	300,275
Intangible asset		-	-	-	-	-	397	397
Property and equipment		-	-	-	-	-	19,172	19,172
Other assets		-	-	-	-	-	92,812	92,812
Total assets		914,962	1,387,766	208,892	825,126	666,829	322,270	4,325,845
Due to banks	3.3%	239,928	77,000	-	173,251	-	-	490,179
Deposits from customers	2.9%	179,059	579,517	965,017	644,302	101,390	473,903	2,943,188
Other liabilities		-	-	-	-	-	142,448	142,448
Subordinated loan	5.6%	-	28,875	-	35,000	-	-	63,875
Shareholders' equity		-	145,744	-	40,000	-	500,411	686,155
Total liabilities and Equity**		418,987	831,136	965,017	892,553	101,390	1,116,762	4,325,845
On-balance sheet gap		495,975	556,630	(756,125)	(67,427)	565,439	(794,492)	-
Cumulative interest sensitivity gap		495,975	1,052,605	296,480	229,053	794,492	-	-

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

C. Market risk *(continued)*

III. Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, the Bank does not hold trading positions in equity and debt investments. However the Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If there is adverse impact of 5% on Level 1 portfolio, the value of the portfolio may decrease by RO 1.89 million (2019: decrease by RO 1.05 million).

If price for unlisted equity and debt instruments had been 5% lower:

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 0.163 million (2019: decrease / increase by RO 0.36 million).

D. Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2019, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on “Potential Losses” has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank’s bottom-line.

Operational Risk Unit (ORU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate ‘risk awareness’ and to spread the general ‘risk management culture’ in the Bank. Professional training in diversified forms is also imparted to improve the employees’ risk management skills.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment’s, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

Business Continuity Planning (BCP) *(continued)*

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

33. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year. As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 12.875% (including the capital conservation buffer) as at 31 December 2020 and with effect from 1 January 2019, to maintain minimum capital adequacy ratio of 13.5% (including capital conservation buffer).

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 15, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings and Perpetual Tier I Capital securities, as disclosed in notes 16 to 19

33 Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2020 is 17.70 % (2019: 17.86%).

Capital structure	**2020**	2019
	RO'000	RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**299,635**	299,635
Legal reserve	**62,025**	58,966
Share premium	**95,656**	95,656
Special reserve	**17,488**	18,488
Subordinated loan reserve	**21,000**	42,875
Retained earnings	**22,189**	1,447
CET I/Tier I Capital	**517,993**	517,067
Additional Tier I regulatory adjustments:		
Deferred tax assets	**(5,340)**	(1,028)
Goodwill	**-**	(397)
Negative investment revaluation reserve	**(5,637)**	(2,245)
Total CET 1 capital	**507,016**	513,397
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**662,516**	668,897
TIER II CAPITAL		
Investment revaluation reserve	**1,151**	370
General provision	**43,264**	38,315
Subordinated loan	**14,000**	21,000
Total Tier II capital	**58,415**	59,685
Total eligible capital	**720,931**	728,582
Risk weighted assets		
Banking book	**3,662,490**	3,671,420
Trading book	**142,159**	143,412
Operational risk	**267,556**	263,487
Total	**4,072,205**	4,078,319
Total Tier 1 Capital (T1=CET1+AT1)	**662,516**	668,897
Tier II capital	**58,415**	59,685
Total regulatory capital	**720,931**	728,582
Common Equity Tier 1 ratio	**12.45%**	12.59%
Tier I capital ratio	**16.27%**	16.40%
Total capital ratio	**17.70%**	17.86%

34 Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment which are included in "Treasury and investments" segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2020	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**71,542**	**104,704**	**29,008**	**205,254**
Other revenues (net of commission expense)	**4,454**	**9,236**	**8,663**	**22,353**
Total	**75,996**	**113,940**	**37,671**	**227,607**
Interest, Islamic Window Deposit expenses	**(29,516)**	**(52,468)**	**(15,630)**	**(97,614)**
Net operating income	**46,480**	**61,472**	**22,041**	**129,993**
Segment cost				
Operating expenses including depreciation	**(30,962)**	**(28,885)**	**(5,232)**	**(65,079)**
Impairment for loans and investment net recoveries from allowance for loans impairment	**(3,311)**	**(26,507)**	**828**	**(28,990)**
Bad Debts Written off	**(1)**	**-**	**-**	**(1)**
Profit from operations after provision	**12,206**	**6,080**	**17,637**	**35,923**
Income tax expenses	**(1,814)**	**(903)**	**(2,621)**	**(5,338)**
Net profit for the year	**10,392**	**5,177**	**15,016**	**30,585**
Segment assets	**1,320,638**	**2,365,718**	**716,042**	**4,402,398**
Less: Impairment allowance	**(56,134)**	**(88,547)**	**(694)**	**(145,375)**
Total segment assets	**1,264,504**	**2,277,171**	**715,348**	**4,257,023**
Segment liabilities	**743,066**	**2,308,453**	**497,988**	**3,549,507**
Add: Impairment allowance	**3**	**10,831**	**818**	**11,652**
Segment liabilities	**743,069**	**2,319,284**	**498,806**	**3,561,159**

34 Segmental information *(continued)*

At 31 December 2019	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	75,988	100,989	17,161	194,138
Other revenues (net of commission expense)	4,279	11,160	19,694	35,133
Total	80,267	112,149	36,855	229,271
Interest, Islamic Window Deposit expenses	(30,205)	(51,089)	(18,013)	(99,307)
Net operating income	50,062	61,060	18,842	129,964
Segment cost				
Operating expenses including depreciation	(35,867)	(30,130)	(5,477)	(71,474)
Impairment for loans and investment net recoveries from allowance for loans impairment	(719)	(21,424)	(251)	(22,394)
Bad Debts Written off	(4)	-	-	(4)
Profit from operations after provision	13,472	9,506	13,114	36,092
Income tax expenses	(2,183)	(1,540)	(2,125)	(5,848)
Net profit for the year	11,289	7,966	10,989	30,244
Segment assets	1,376,470	2,071,420	997,836	4,445,726
Less: Impairment allowance	56,332	62,110	1,439	119,881
Total segment assets	1,320,138	2,009,310	996,397	4,325,845
Segment liabilities	675,099	2,385,730	565,943	3,626,772
Add: Impairment allowance	124	11,898	896	12,918
Segment liabilities	675,223	2,397,628	566,839	3,639,690

34 Segmental information *(continued)*

Islamic Banking Window

At 31 December 2020	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**9,311**	**17,672**	**3,327**	**30,310**
Other revenues	**419**	**1,184**	**323**	**1,926**
Total	**9,730**	**18,856**	**3,650**	**32,236**
Unrestricted investment account holders' share of profit and profit expense	**(2,780)**	**(10,216)**	**(1,893)**	**(14,889)**
Net operating income	**6,950**	**8,640**	**1,757**	**17,347**
Segment cost				
Operating expenses including depreciation	**(2,178)**	**(4,130)**	**(1,202)**	**(7,510)**
Impairment allowance	**(229)**	**(3,093)**	**(3)**	**(3,325)**
Bad Debts Written off	-	-	-	-
Profit before tax	**4,543**	**1,417**	**552**	**6,512**
Segment assets	**179,845**	**343,360**	**104,617**	**627,822**
Less: Impairment allowance	**(700)**	**(8,470)**	**(130)**	**(9,300)**
Total segment assets	**179,145**	**334,890**	**104,487**	**618,522**
Segment liabilities	**94,200**	**306,521**	**31,248**	**431,969**
Add: Impairment allowance	**-**	**527**	**-**	**527**
Segment liabilities	**94,200**	**307,048**	**31,248**	**432,496**

34 Segmental information *(continued)*

At 31 December 2019	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	9,073	14,778	2,389	24,004
Other revenues	223	1,465	693	4,617
Total	9,296	16,243	3,082	28,621
Unrestricted investment account holders' share of profit and profit expense	(1,777)	(11,026)	(1,479)	(14,282)
Net operating income	7,519	5,217	1603	14,339
Segment cost				
Operating expenses including depreciation	(3,676)	(1,986)	(970)	(6,632)
Impairment allowance	(58)	(737)	61	(734)
Bad Debts Written off	(3)	-	-	(3)
Profit before tax	3,782	2,494	694	6,970
Segment assets	175,792	282,850	132,286	590,928
Less: Impairment allowance	(456)	(5,413)	(127)	(5,996)
Total segment assets	175,336	277,437	132,159	584,932
Segment liabilities	63,995	350,385	36,327	450,707
Add: Impairment allowance	1	268	-	269
Segment liabilities	63,996	350,653	36,327	450,976

35 Dividends – proposed and declared

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors of Directors in their meeting held on 28th January 2021 proposed a total cash dividend of 6%, (6 (six) baizas per share, total of RO 17.978 million) (2019: 3%; RO 8.99 million) and nil bonus share issue distribution for the year ended 31st December 2020 (2019: Nil), This is subject to the Central Bank of Oman and shareholders' approval.

The Bank has received CBO approval for a total cash dividend of 4%, (4 baizas per share, total of RO 11.985 million) for the year 2020 instead of the proposed a total cash dividend of 6%, (6 (six) baizas per share, total of RO 17.978 million) and this is subject to the shareholders' approval.

A resolution to approve these distributions will be presented to the shareholders at the Annual General Meeting to be held on 23 March 2020. Board of Directors in their meeting held on 28 January 2020 approved a distribution of RO 15 million from Maisarah Islamic Banking Services, Bank's Islamic Banking Window to the Head Office and also approved increase in paid up capital from Bank's core capital to Maisarah Islamic Banking Services an amount RO 15 million.

During the year, unclaimed dividend amounting to RO 3,864 (2019: RO 3,864) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

36 Leases

This note provides information for leases where the Bank is a lessee.

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2020 RO'000	2019 RO'000
Right-of-use assets		
Leased Premises	**1,457**	1,823
Lease liabilities		
Current	**-**	26
Non-current	**671**	738
	671	764

Additions to the right-of-use assets during the 2020 financial year were RO 0.38 million (2019: RO 0.11 million).

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2020 RO'000	2019 RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**1,476**	817
Interest expense (included in finance costs)	**34**	56
Expense relating to short-term leases	**1,695**	1,929

The total cash outflow for leases in 2020 was RO 2 million (2019: RO 1.25 million).

(iii) The Bank's leasing activities and how these are accounted for

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to statement of comprehensive income on a straight-line basis over the period of the lease.
From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

36 Leases (continued)

(iii) The Bank's leasing activities and how these are accounted for (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income . Short-term leases are leases with a lease term of 12 months or less. The Bank does not have any Low-value assets as of the respective reporting date.

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Bank and by the respective lessor. Extension options are not included in the lease term because it is not reasonably certain that the leases will be extended or not terminated.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).

36 Leases (continued)

(iv) ***Extension and termination options*** (continued)

- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

As at 31 December 2020, potential future cash outflows of RO million (2019: 1.34 million)have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the financial year, the Bank did not revise the lease term as no significant events or changes occurred.

37 Comparative figures

Certain comparative figures have been reclassified in order to conform the presentation for the current year. These have no impact on the profit for the year or total equity. The details are as follows:

a) Interest Income reclassified;

	2020	2019	2019
		Revised	
	RO 000	*RO 000*	*RO 000*
Net interest income – Conventional Banking	**205,254**	208,365	194,138
Net interest income – Islamic Banking	**19,977**	14,227	14,227
Other operating income	**9,834**	6,679	20,906

b) Cash flows from interest income on investment securities:

The cash flows in 2019 from investment securities were previously presented under operating activities amounting to RO 16.072 million. These cash flows are currently reclassified and presented on a gross basis under investing activities.

c) Cash flows from due to banks and due from banks:

The cash flows from balances due to Banks and due from banks with a short term maturity of 3 months or less were previously presented under cash and cash equivalents. These cash flows are reclassified from cash and cash equivalents and presented in the cash flows of due to Banks and due from banks.