



ANNUAL REPORT 2020

INNOVATING FOR
THE CHANGING WORLD





His Majesty Sultan Haitham bin Tarik

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AHLIBANK

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To be the trusted and preferred banking partner dedicated to create unique value for our employees, customers, shareholders and community.

Sustainable Results

An Overview

FIVE YEARS SUMMARY

RO ' Million	Dec-20	Dec-19	Dec 18	Dec 17	Dec 16
Net profit	24.0	31.0	28.8	26.7	29.6
Total assets	2,702.5	2,518.5	2,290.4	2,014.6	1,899.7
Loans & advances and financings, net	2,218.9	2,055.0	1,870.7	1,634.4	1,522.1
Total Deposits	1,924.7	1,771.7	1,661.6	1,450.9	1,271.0
Total liabilities	2,314.1	2,129.3	1,931.4	1,709.8	1,656.7
Total equity	388.3	389.2	359.0	304.8	242.9
Return on average assets (ROAA)	0.9%	1.3%	1.3%	1.4%	1.6%
Return on average equity (ROAE)	9.1%	11.9%	11.3%	10.7%	12.6%
Cost to income ratio	42.1%	39.6%	37.4%	35.3%	35.9%
Capital adequacy ratio	15.7%	16.9%	17.5%	16.7%	15.0%
Net interest margin	2.1%	2.0%	2.2%	1.9%	2.2%
Earnings per share (baizas)	14.5	18.8	17.4	16.2	17.9
Total Number of Branches	31	25	22	20	20
- Conventional	19	16	14	13	13
- Islamic	12	9	8	7	7
ATM's	41	36	33	30	30
Number of staff	730	656	598	542	538

About Us



Established as a full-fledged commercial Bank in 2007, ahlbank is committed to enhance customer satisfaction with a comprehensive suite of services, use of modern technology and innovative solutions across its 19 branches in Oman.

ahlibank’s mission is to exceed customer expectations and deliver outstanding shareholder value. In line with its vision of being vibrant and an innovative centre of banking, the Bank offers top-class retail, commercial, investment banking solutions and is well-known for its customer-centricity. The Bank provides customers with convenient access to high-quality products and services through its presence at strategic locations throughout the Sultanate. The Bank will continue to grow the branch network of ahlbank and ahli islamic across Oman while keeping pace with the changing market demands to meet the lifestyle needs of the Bank’s burgeoning customer base. Additionally, the digitalization of procedures and the highly focused team offers a range of advisors and specialist services, which makes it one of the preferred Banks in the Sultanate.

Our people

From resourcing to retention, and employment competition to employee engagement, at ahlbank we recognizes employees’ value in achieving the banks’ short and long term strategy.

We have created a culture focused on promoting our talents and providing them a platform to embark on their careers. Being an ahlbanker means that you will cultivate excellence by challenging oneself. We seek to inspire an environment where innovation thrives, monitoring is essential, milestones are celebrated and excellent customer experience is the ultimate goal.



Having launched its operations on January 2013, ahli islamic is committed to its vision to be a leading provider of Islamic banking and finance services in the Sultanate.

As of December 2020, ahli islamic has 12 dedicated branches across the Sultanate. In addition, ahli Islamic has a dedicated Treasury, SME, Trade, Corporate Banking and Shari’a Audit and Compliance departments.

It is worth noting that ahli islamic objective is to abide by the ethics and values of Islamic finance, and help customers, communities and people to prosper and grow. ahli islamic facilitates customers to operate their business under Shari’a Principles by way of providing wide array of Shari’a-based financial products and also ensures highest level of service standards with focus on “Partnering” instead of financing with customer. ahli islamic continues to focus on innovative products and services, in order to increase its foothold and market presence, where customers show a keen interest towards sharia-compliant products.



730
Total Employees



112
New Joiners (2020)

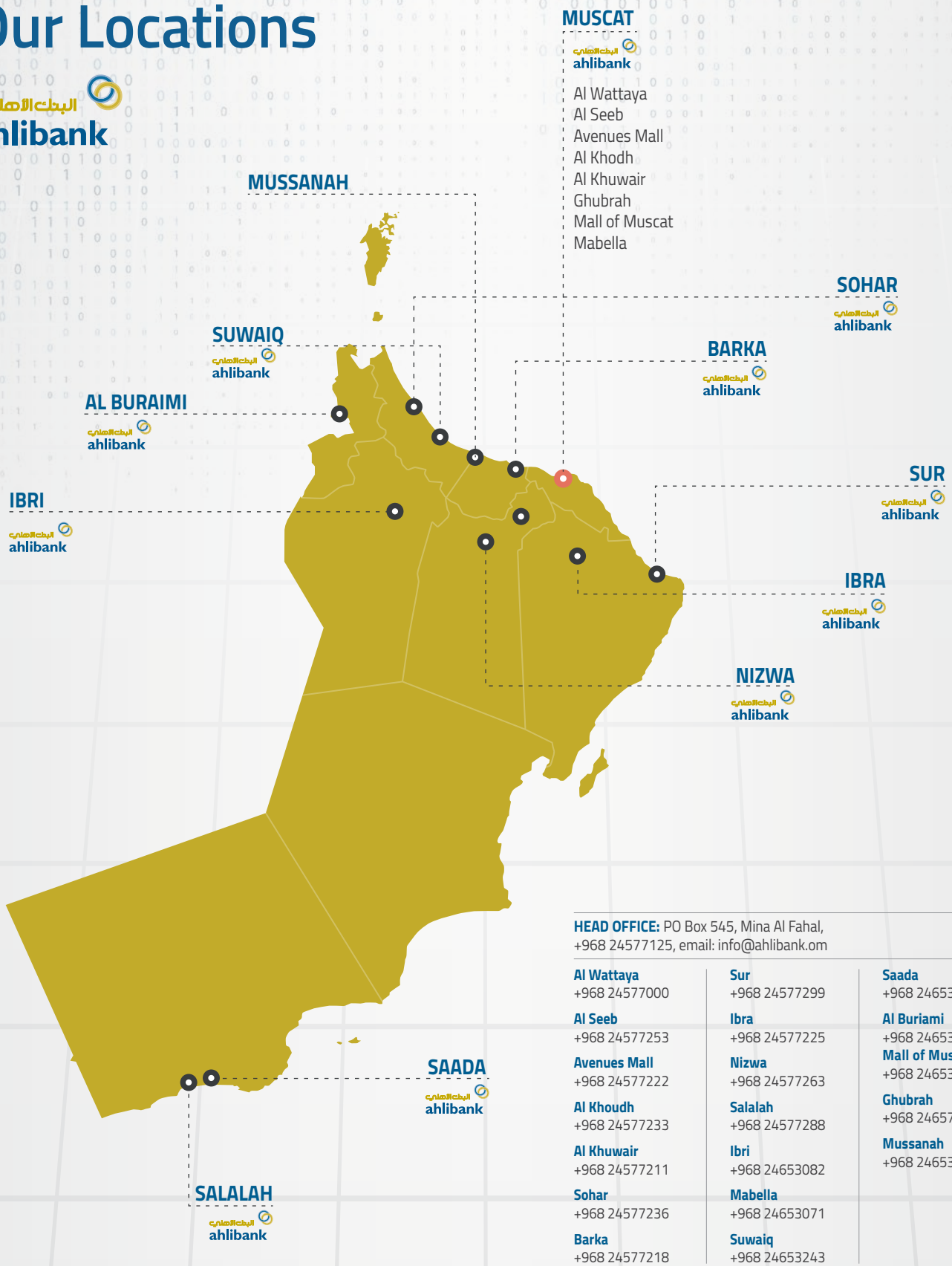


94.38%
Omanization



09
GDP Joiners

Our Locations



MUSCAT



- Al Wattaya
- Al Seeb
- Avenues Mall
- Al Khodh
- Al Khuwair
- Ghubrah
- Mall of Muscat
- Mabella

SOHAR



BARKA



SUR



IBRA



NIZWA



SAADA



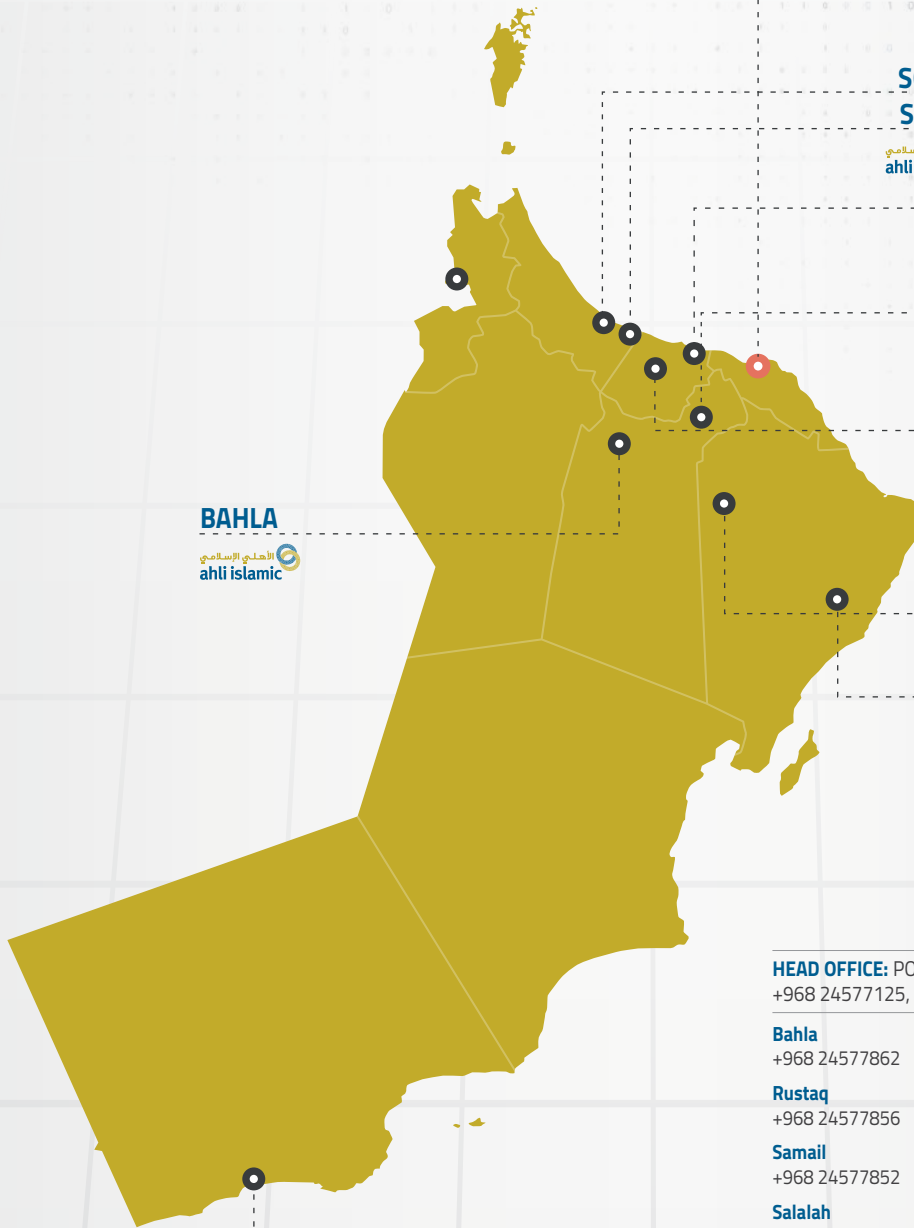
SALALAH



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Al Seeb +968 24577253	Ibra +968 24577225	Al Buriami +968 24653266
Avenues Mall +968 24577222	Nizwa +968 24577263	Mall of Muscat +968 24653373
Al Khoudh +968 24577233	Salalah +968 24577288	Ghubrah +968 24657164
Al Khuwair +968 24577211	Ibri +968 24653082	Mussanah +968 24653428
Sohar +968 24577236	Mabella +968 24653071	
Barka +968 24577218	Suwaiq +968 24653243	

This map is not an authority on international boundaries.



MUSCAT



Al Wattaya
Al Khoudh
Ghubra

**SOHAR
SAHAM**



BARKA



SAMAIL



RUSTAQ



BAHLA



SINAW



JALAN BANI BU ALI

SALALAH



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This map is not an authority on international boundaries.

Setting Milestones

ahlibank has always maintained its reputation of being a bank that is dedicated and efficient, serving its customers with innovative and attractive products and services. A look at some of their achievements over the 13 years of successful operations

2008 Initiation of the Transformation Journey

From being purely a mortgage bank, to a fully-fledged commercial bank, ahlibank has undergone quite a "metamorphosis." Erstwhile Alliance Housing Bank began its transformation on January 5, 2008, availing a full commercial license and a new name; ahlibank. Strategic partner, Ahli United Bank BSC acquired in a 35 per cent equity stake in addition to the IFC, with a 9.9 per cent stake.

2008

2009

2009 Retail Thrust

Having completed the transformation process, 2009 saw the bank firmly establish itself on a growth trajectory. The bank rolled out an expansion of 5 new branches to a total of 12 and introduced a wide portfolio of new products. Five off-site ATMs were added to broaden the geographical platform.

In July, ahlibank introduced the first ATM chip debit card, equipped with smart card technology, offering customers a much higher level of security against fraud as well as quicker transaction times. ahlibank's net operating income grew by 26 per cent in 2009 to R017.9mn, while its net profit jumped by 44 per cent to R08.5mn.

2010 Forging Ahead

The banking sector experienced a challenging environment in 2010. Despite the limitations imposed by the external environment, ahlibank continued to grow and had a satisfactory business performance in 2010. The bank's customer deposits grew by 35 per cent in line with its strategy to build a stable low cost deposit base, while loan growth of 48 per cent was managed with prudence. Not only did the loan book grow but it continued to be of a very high quality as reflected in the bank's NPL ratio of 0.31 per cent.

The highlight of the year was the bank being conferred with the Corporate Governance Excellence Award for 2010 from the Capital Market Authority.

It was also in the year 2010 that the bank introduced the concept of 'ahlibanking', a value based approach to banking which encompasses five basic values: Professional Banking, Smart Banking, Convenience Banking, Quality Banking and Responsible Banking. ahlibanking reflects the bank's commitment of providing customers the best products and services; it sums up the bank's efforts to redefine banking habits with its convenient and efficient offerings and underscores its goal of being the bank of choice for customers.

2010

2013 Celebrating Excellence

The bank launched its Islamic banking window under the brand name 'Al Hilal Islamic Banking Services' which delivers a suite of sharia-compliant products and services, catering to institutional, corporate and retail clients. The launch of Al Hilal was notable for the Bank opening 7 Islamic branches across Oman in the first year.

Shortly after, Al Hilal Islamic Banking Services, ahlibank SAOG became the first to offer Islamic Visa Signature Credit Card with a unique value proposition revolving around social responsibility; every time the cardholder used the Al Hilal Credit Card, 0.50 per cent of every transactional profit was donated to charity.

Al Hilal Islamic Banking also launched one-of-its-kind savings account, called 'Al Namaa Saving Account' which was a unique transactional savings account giving high sharia-compliant returns based on balance tiers along with cheque book and Visa debit card.

Additionally, the bank was shifted to a new iconic head office building in Al-Wattyta, Muscat, reflecting its vision and objectives clearly to choose each activity and take the necessary steps to yield the best results for its customers, shareholders, business partners and employees.

ahlibank was awarded 'Best Commercial Bank in Oman', by the World Finance Magazine and 'The Bank of the Year 2013' by The Banker. The awards reflected ahlibank's consistent and strong financial performance and its adoption of appropriate policies and growth strategies. The bank remained focused on Corporate Governance and for the second time in the three years, the Bank was awarded for Corporate Governance Excellence by the Capital Markets Authority.

2011
& 12

2011 & 12 Strength-to-Strength

ahlibank's continued strong performance helped it to emerge as the Best bank in Oman as per the OER Gulf Baader Survey, which the bank has continued to win, in every subsequent year since. The bank's NPAs were the lowest in the industry while the return on assets was the highest.

In 2012, ahlibank took the first steps to further diversify the product offering through a platform to serve SMEs.

The Bank in line with its business strategy successfully concluded the Right Issue for RO25mn to enhance the Tier I capital.

The bank also launched the Brokerage division which caters both Retail and Institutional clients, and gives them the chance to execute their investments their way.

In 2012, the bank launched Asset Management division to provide local and regional portfolio management services, distribution of mutual funds, retirement and savings plans, investment advice, innovative solutions, outstanding execution and comprehensive access to both local and regional capital markets.

2013

2014

2014 Customer-focused Growth

To further enhance customer experience and continue to provide additional payment options, ahlibank introduced, for the first time, Platinum Credit Cards for conventional customers and Signature and Platinum for the Islamic segment, with a range of benefits and offers. As a first of a kind, the bank also introduced an application-based dining program for card customers, whereby customers could avail of up to 25 per cent discounts on various dining options.

To supplement their well-established industry-specific corporate banking teams, the bank hired dedicated project finance resources in 2014, and were duly awarded a number of high-profile advisory and financing mandates. For example, in December the bank was awarded the sole finance mandate, for ORPIC Logistics Company's \$320mn Sohar to Muscat pipeline project, jointly underwritten with strategic partner Ahli United Bank.

2015
Consolidation and Further Diversification

Progress on SME business development continued, with the SME lending portfolio crossing 3 per cent of total loans. The bank increased its footprint to 20 branches across Oman, of which seven were Islamic. The branches were supplemented by five customer service kiosks in shopping malls which incorporated ATMs. The bank also opened a new conventional flagship branch at Avenues Mall Muscat and relocated two branches to Mabella (conventional) and Mawaleh (Islamic).

2015

2016

2016
New Benchmarks

In 2016, ahlibank continued to increase its wide range of products and services, and to upgrade and strengthen the core banking systems, in order to enhance efficient and secure services to customers. Supported by a number of new product launches and propositions, the retail banking division improved its coverage and profitability. The market share of low-cost deposits, in particular, increased. The retail asset book remained stable and of a high quality. The bank's corporate book remained of consistent quality, despite economic and liquidity headwinds starting to affect the banking sector.

The balance sheet was actively managed to maintain interest margins and to ensure liquidity remained available to support lending activities. While the overall balance sheet growth was deliberately moderated in 2016, the bank recorded a 'high watermark' year with the highest net profit after tax result of RO29.5mn being achieved. Other key metrics included a return on equity of 12.6 per cent, cost efficiency ratio of 35.9 per cent and an NPL ratio of 1.1 per cent.

2017
STEADY PERFORMANCE

Despite the global, regional and local economic and geopolitical challenges the bank faced in 2017, the bank's total operating income reached RO55mn, an increase of 2.6 per cent compared to 2016. The bank achieved a return of shareholders' equity of 10.7 per cent despite a slight increase in operating expenses. Due to the prudent risk management framework adopted by the bank, the ratio of non-performing loans remained stable at 1.16 per cent in 2017, although total loans and financing increased by 7.3 per cent in 2017.

In retail, the bank significantly enhanced the MyHassad Savings Scheme which offers customers the chance to win RO250,000 in the "Salary for Life" Draw; plus a RO250,000 bumper prize, in addition to other prizes for the privileged banking categories as well as special events draws.

2017

2019 Embracing Digital Transformation

ahlibank has upgraded and improvised its mobile banking app for an enhanced digital banking experience to meet the changing needs of the customers. Technology upgradations, at par with global standards, have also been made to the online banking platform to ensure the customers have quick access to their financial information with complete security. It also upgraded the Point of Sale (POS) technology. The new POS system increases efficiency and expands payment capabilities in terms of inventory, employee and reporting management. ahlibank's savings account offering generous cash prizes, unveiled its new name and brand identity-Wafra. The name Wafra carries an impactful meaning – that of abundance. The bank also rebranded its Islamic banking window Al Hilal Islamic Banking to 'Ahli Islamic.'

As part of its digital innovation and transformation process, ahlibank announced the launch of ahlibank Contactless Cards, a technology that will make payments process safer, easier and faster, thereby enhancing the overall customer experience. The Contactless Cards can be used at millions of merchants, around the world, having POS terminals with the contactless symbol. As part of its expansion strategy, the Bank added three branches this year to better serve its customers across the Sultanate. The Qitaf Prize Scheme was launched by Ahli Islamic to enhance the Banking experience of Islamic Banking customers.

2018

2018 Sustaining Growth

Despite the challenging economic and financial situation driven by highly volatile oil prices in 2018, the bank's total operating income reached RO62.1mn, an increase of 10.5 per cent compared to 2017. The bank achieved a return of shareholders' equity of 11.3 per cent and net profit after tax of RO28.8mn. Due to continuous prudent risk management practices by the bank, the ratio of nonperforming loans stood at 1.7 per cent in 2018, although total loans and financing increased by 14.5 per cent in 2018. The Bank's total assets grew 13.7 per cent to RO2,290.4mn; customers' deposits increased by 14.5 per cent to reach RO1,661.6mn; and total loans and financing grew by 14.5 per cent to reach RO1,870.7mn. Total Equity increased to RO358.9mn from RO304.8mn of previous year. Two new branches were opened during the year. At the end of 2018, Ahli Islamic's net profit increased by 14.22 per cent, reaching RO5.6mn compared to RO4.9mn at the end of 2017. In 2018, ahlibank celebrated a decade of consistently profitable growth, guided by the Board of Directors, enabled by the bank's dedicated employees, facilitated by the bank's wide range of services, products and propositions.

2019

2020

2020 STRONG FINANCIALS AND MARKET TRUST

Despite economic headwinds, ahlibank maintained a steady financial growth in 2020. The bank's sustainable business practices balanced responsibility alongside growth and productivity – the bank donated OMR 1 million to support the Sultanate's efforts to deal with the Covid-19 pandemic; and continued to expand its branch network, including for that of ahliIslamic, in line with its customer-first approach. Ahlibank expanded its product and services portfolio with the new youth account, 'MyChoice' and the retiree segment account, 'Istqrar'. The Bank has made significant progress in building its retail and corporate business lines, by funding both small and large-scale projects of national importance. The bank's efforts put several awards to its name including the 'Best Bank-Mid Size' award by Oman Banking & Finance Awards 2020; and the 'Best Performing Company' award in the Large Capital category for the third consecutive year, at the Alam Al-Iktisaad Awards.

Having the best products, services, technologies, international practices, and industry-leading professionals, the Bank is well positioned to build further on its market excellence, and capitalise on upcoming opportunities, in order to play an active and positive role in enhancing the national economy, by continuing to create value for the Sultanate of Oman.



استشارة طلب
التعامل المصرفي عبر
وخدمة SMS
SMS Banking
ization

SECTION II

STRATEGIC REVIEW

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Board of Directors



Hamdan Ali Nasser Al Hinai

Chairman

Holds a Masters degree in Development and project management, Bachelors in Business Management & Economics and Diploma in International Development Management; Former Director General, Purchasing and Contracts, Ministry of Defense.

Anwar Hilal Hamdoon Al Jabri

First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Chairman, Ubhar Capital SAOC; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Has more than 21 years of industry experience and various leadership positions.



Sanjeev Bajjal

Second Deputy Chairman

Chartered Global Management Accountant under the Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA); Deputy Group CEO: Finance and Strategic Development, Ahli United Bank BSC, Bahrain; Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India. (Total years of experience: 37).



Keith Gale

Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK; Associate Member of the Institute of Chartered Accountants England & Wales (ACA); Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Previously Group Head of Risk Management, Ahli United Bank, Bahrain (19 years of experience at Ahli United Bank); Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.



Abdul Hameed Ahmed Mohamed Al Bulushi

Director

Holds a High Diploma in Development, United Kingdom; Bachelors degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Has more than 29 years of experience in the Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.



Rajeev Gogia

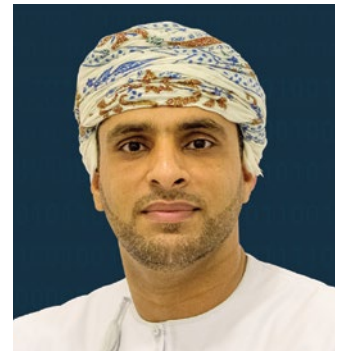
Director

Member of the Institute of Chartered Accountants of India and Bachelor in Commerce, India; Group Head of Strategic Development at Ahli United Bank BSC, Bahrain; Board Member of Ahli United Bank (Egypt) SAE; Board Member of Al Hilal Life B.S.C.(c); Al Hilal Takaful B.S.C. (c), Bahrain; Previous experience as Senior Division Head – Strategic Development, National Bank of Dubai, UAE; Vice President (Consulting & Business Development), Polaris Software Lab Ltd., UAE; Executive Consultant, KPMG, UAE. Has over 23 years of industry and advisory experience in formulating and implementing corporate strategies, mergers and acquisitions, capital raising and management, P&L oversight, investments, etc.

Ibrahim Said Badar Al Eisri

Director

A member of the Association of Chartered Certified Accountants (ACCA), Masters in Finance, Oxford Brookes University, UK and Bachelor's Degree in Commerce Major Accounting & Finance, Curtin University of Technology, Perth, Australia; Director Private Equity Oman Investment Authority (OIA); Chairman, Rakiza Infrastructure Fund; Director Al Hosn Investment Company; Omantel; A member of the Income Tax Committee, Ministry of Finance. Has over 17 years of experience in different sectors such as telecommunications, oil and gas and financial and investments; Has held different leadership roles in Finance and Investment Operations.



Juma Rashid Saif Al Jahwari

Director

Holds an MSc in Financial Management, the University of Greenwich, London, UK and BSc in Economics, Beirut Arab University, Muscat, Oman. Chief of Finance & Administration - The Royal Office Pension Fund. A Board member of Oman Future Telecommunications Company, founding member of the IIA Oman Chapter and member of Board of Governors – Institute of Internal Auditors (Oman Chapter IIA-Oman). Former Counselor, Ministry of Foreign Affairs, Embassy of the Sultanate of Oman, Washington DC. He has also held different positions in the Royal Office.

Salim Ali Hamed Al Hasni

Director

Holds a Masters degree in Science in Commercial Project Management from the University of Manchester – College of Mechanical, Aerospace & Civil Engineering and Bachelor of Science (Commerce & Economics) from Sultan Qaboos University. Deputy Director for Procurement - Ministry of Defense. Chairman of the Board of Directors of Reem Batteries & Power Appliances SAOC; Vice Chairman of Sohar Power Company SAOG. Has more than 15 years of experience in the Ministry of Defense in different positions.



Executive Management



Said Abdullah Al Hatmi
Chief Executive Officer



Abdullah Salim Al Jabri
Deputy CEO
Support & Services



Bilal Anwar
Deputy CEO
Business Group



Ghada AbdulLatif Al Balushi
General Manager
Head of Risk Management



Hanaa Mohammed Al Kharusi
General Manager
Head of Corporate Banking



Zaliya Lal Bakhsh Al Balushi
Deputy General Manager
Large Corporate



Yousuf Salim Al Rawahi
Deputy General Manager
Head of ahli islamic



Abdul Majeed Al Hooti
Deputy General Manager
Head of Legal, Collection &
Remedial



Taher Al Bakhsh Al Balushi
Deputy General Manager
Strategy & Transformation



Sriram Balakrishnan
Deputy General Manager
Head of Finance



Fahad Freish Al Shuaili
Deputy General Manager
Head of Internal Audit



Ibrahim Abdullah Al Mamaari
Assistant General Manager
Head of Compliance



Azzan Abdul Amir Al Saleh
Assistant General Manager
Head of Mid Market & SME



Tariq Noor Mohd Al Zadjali
Assistant General Manager
Head of Projects & Application
Development



Muneer Ahmed Al Balushi
Assistant General Manager
Retail Distribution



Mohammed Mohsin Al Mufargi
Assistant General Manager
Head of Human Resources



Said Ahmed Al Mahrooqi
Assistant General Manager
Head of Information Security
& Operational Risk



Farid Mohammed Al Bahri
Assistant General Manager
Head of Credit Risk



Najla Murtadha Al Lawati
Assistant General Manager
Head of Private Banking &
Wealth Management



Mohammed Abdul Qadir Al Balushi
Assistant General Manager
Head of Treasury



Hassan Maqbool Al Lawati
Assistant General Manager
Special Assist Management &
Corporate Remedial

Chairman's Report



“ahlibank has been swift in adopting new modes of service delivery and technologies and continuously developing its products and services to serve the market more effectively and efficiently.”

Hamdan Ali Nasser Al Hinai

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the financial statements of ahlibank for the year ended 31 December 2020.

Oman's banking sector has always been evolving, constantly adapting to the changes in the global financial services sector's dynamic landscape. With this comes the adoption of new technologies and paradigm shift in client offerings. The recent and ongoing shift was further accelerated by the COVID-19 pandemic, which has disrupted current operations, systems, ways of doing business and has forced the sector to quickly innovate and fully embrace the digital transformation happening in almost all the sectors.

In order to continue to serve its clients, on the back of the government's objectives to enhance the banking sector's capabilities and capacities to support the economy, the Central Bank of Oman (CBO) is working to enable the sector and its stakeholders to reap the benefits of greater technological usage and innovation.

Despite the current economic challenges posed by COVID-19, ahlibank has successfully completed 2020 with a steady and strong performance in terms of asset growth and other key financial indicators. This is the result of the implementation of several initiatives targeted at its valuable clients and customers. The Bank looks forward to sustaining this growth momentum in 2021.

In its 13 years of service and more so during these challenging times, ahlibank has been swift in adopting new modes of service delivery and technologies and continuously developing its products and services to serve the market more effectively and efficiently. Along with this, it has employed sustainable business practices, balancing growth with moral and social responsibilities.

It boasts of several milestones that have contributed to its eminent position in the market, while continuing to support the growth of the economy by aligning itself with the goals of the Oman Vision 2040 under the wise leadership of His Majesty the Sultan.

Financial Performance

ahlibank continues to grow steadily in terms of its asset portfolio and most of its key financial indicators:

	31-Dec-20	31-Dec-19	Growth %
	RO Million		
Total assets	2,702.5	2,518.5	7.3%
Loans & advances and financing, net	2,218.9	2,055.0	8.0%
Customers' deposits	1,924.7	1,711.7	12.4%
Equity	388.4	389.2	-0.2%
Operating income	71.5	69.7	2.6%
Operating expenses	30.1	27.6	9.1%
Profit for the period	24.0	31.0	-22.6%

Amid the exceptional circumstances, the Bank's total assets grew by 7.3 per cent in 2020, reaching RO2.70 billion, compared to RO2.52 billion in 2019. Customer deposits went up by a whopping 12.4 per cent to reach RO1.92 billion compared to RO1.71 billion. Loans and advances and financing, net grew by 8 per cent, reaching RO 2.21 billion. The Bank's operating income increased by 2.6 per cent, reaching RO71.50 million in 2020. Operating expenses increased by 9.1 per cent, while the profit for the period was lower by 22.6 per cent, largely due to the pandemic-related slowdown and additional impairment charges on account of the prevailing operating environment due to the COVID-19 impact.

Highlights and Key Milestones

ahlibank continues its robust and prudent growth strategy and remains focused on high-quality assets and well-managed liquidity. During the year 2020, the bank donated RO1 million to support the Sultanate's efforts to mitigate the effects of the COVID-19 pandemic.

ahlibank has ensured organizational resilience and continuity of business services during this time through its various digital and remote banking assets and a greater focus on the retail banking segment. It is continuing to expand its branch network across the Sultanate, including ahli islamic, in line with its customer-first approach.

ahlibank recently added to its product and services portfolio with the new youth account, "MyChoice," and the retiree segment account, "Istqrar." It has also made significant progress in building its retail and corporate business lines by funding both small and large-scale projects.

The 2020 Wafra and Qitaf prizes included more categories and draws than in previous years, targeting a wider range of customers across the Bank's branch network in the Sultanate.

ahlibank's commitment to providing outstanding services has resulted in prestigious awards and accolades to its credit. It won the respected "Best Performing Company" award in the Large Capital category for the third consecutive year at the 10th edition of the Alam Al-Iktisaad Awards and the 'Best Bank-Mid Size' award at the prestigious Oman Banking & Finance Awards 2020.

Corporate Social Responsibility

ahlibank's strategic approach to social responsibility is reflected in its efforts to achieve greater sustainable value with the participation of individuals, institutions and society as a whole. In line with its social, ethical values and vision, it undertook numerous initiatives targeting different segments of society over the past year to support various

social, educational, health and sports activities in Oman.

ahlibank places great value on human capital and considers them as the ambassadors of the brand and the backbone of its various operations. Over the years, it has demonstrated a strong commitment to the enrichment of the youth, paying significant attention to nurturing young Omani talent.

Looking Ahead

Moving forward, the Bank is well-positioned to build further on its marketing excellence and capitalize on new opportunities by continuing to add value for its clients and customers. The 2021 Wafra and Qitaf prize schemes and other initiatives are seen to propel growth.

As the Bank continues its remarkable growth path, it has embarked on the ambitious project of expanding its head office building as a smart and innovative infrastructure, which will contribute towards creating a stimulating and performance-driven work environment.

Moreover, it will cement its position as a trusted financial partner in Oman and will continue to make meaningful efforts to achieve financial inclusion, commitment and most importantly, encourage a savings-oriented lifestyle to fulfill the demands of the changing world.

Acknowledgments

On behalf of the Board of Directors, I would like to thank ahlibank's stakeholders for their trust and faith in us. Their support has been instrumental in helping us protect the interests of our customers and retain the confidence of our employees.

The Bank remains true to its pledge to support His Majesty Sultan Haitham bin Tarik's goals and vision and contribute towards the advancement of the country's economy.

We share the national agenda for growth and remain supportive to the Government, the Ministry of Health, the Supreme Committee, the Central Bank of Oman, and other regulatory authorities in adhering to the procedures that protect the Sultanate and all its residents.

Finally, I would like to convey our acknowledgement and appreciation to the Bank's Executive Management team and employees for their commitment and dedication to the success that the Bank has achieved so far, especially in the light of the COVID-19 pandemic. Lastly, but certainly not the least, I would like to thank our customers for their continued loyalty and trust.

Hamdan Ali Nasser Al Hinai
Chairman

Management Discussion and Analysis

Economic Review

In 2020, the world faced a global health crisis due to COVID-19 pandemic. This led to the subsequent sharp fall in oil prices alongside a drop in global interest rates during the year, seriously disrupting business and impacting the economy on a global scale. With the magnitude of this impact, economists are not foreseeing any recovery for the short term. Like the vast majority of countries during the onset of the pandemic, Oman attempted to contain the coronavirus by enforcing a full lockdown, followed by travel restrictions, temporary closure of businesses, consequently, phased lockdowns, which, in turn, caused a major slowdown of the economic growth. The dual shock of the Covid-19 and continued oil market disruptions have placed an urgent spotlight on the country's fiscal position.

In light of the persistent financial and economic challenges resulting from the pandemic and the negative oil price environment, which was mainly influenced by the Organization of Petroleum Exporting Countries' (OPEC) decision to reduce crude oil production as a result of the decline in global growth and oil demand, the 2021 budget was prepared.

The 2021 budget is the first budget for the Tenth Five-Year Plan (2021-2025), paving the way for implementing Oman "Vision 2040." It incorporates the objectives of the Medium-Term Fiscal Plan (2020-2024) - MTFP. Through the MTFP, the government aims to implement a number of measures and initiatives with the goal of saving the credit rating from deteriorating and reducing the deficit.

The Budget 2021 sets a prudent and measured tone in both revenue and expenditure projections on the back of a fiscal deficit of about 8% of GDP in 2021 based on the assumed average price of \$45 per barrel. The budget is based on guaranteeing the sustainability of basic social services such as health, housing, education and social security.

The government will continue building the infrastructure required to spur economic growth, and continue giving priority to highly needed projects that serve economic and social objectives. This is in addition to expanding the participation of the private sector by fortifying its role in implementing and managing critical projects and services.

Financial Sector

The financial information for the banking sector issued by the Central Bank of Oman (CBO) showed a rise in foreign exchange reserves by 8.1 per cent, reaching RO 6.8 billion by the end of October 2020 as compared to RO 6.3 billion during the same period in 2019. The loans and deposits increased by 2.2 per cent, reaching RO 26.4 billion, and

3.4 per cent reaching RO 24 billion, respectively, by the end of October 2020 as compared with the same period of 2019. The banking sector continued to support the economy by providing relief to borrowers in the form of deferment of loans apart from granting them additional credit. Despite the considerable deterioration in the global and domestic conditions, e.g., massive contraction in economic activities, loss of employment, and a significant rise in bankruptcies, the financial outlook remains positive.

The MSM Index closed at the end of this year 2020, which stood at 3,659 points, recording a decline of 322 points, representing a decrease of 8.10 per cent compared to last year's numbers. The value of traded securities during this year reached RO 441 million with a decline of 38.02 per cent as compared to last year, which recorded RO 712 million. The market capitalization increased in this year by 7.9 per cent and reached approximately RO 20.24 billion, compared to last year, which reached approximately RO 18.8 billion.

The Bank's Performance

The Bank has completed 13 successful years since its conversion to a full-fledged commercial bank and has continued to deepen its commitment to provide beneficial financial services that go beyond the conventional mode and espouse sustainable business practices going forward. ahlibank's total assets grew by 7.3 per cent in 2020, reaching RO 2.70 billion, compared to RO 2.52 billion in 2019. Customer deposits went up by 12.4 per cent to reach RO 1.92 billion compared to RO 1.71 billion. Loans & advances and financing grew by 8 per cent, reaching RO 2.22 billion. The Bank's operating income increased by 2.6 per cent, reaching RO 71.50 million in 2020. The operating expenses increased by 9.1 per cent, while the profit for the period was lower by 22.6 per cent, largely due to the pandemic-related slowdown resulting in higher credit provisions.

Capital and Reserves:

The capital and reserves of the Bank as of 31 December 2020 stood at RO 388.3 million compared to RO 389.2 million as of 31 December 2019. The Bank is in the process of raising RO 30 million of share capital through rights issue from its existing shareholders. The Bank maintained sufficient capital buffers and remained highly capitalized. The capital adequacy ratio of the bank stood at 15.67 per cent, comfortably above the regulatory requirement of 12.25 per cent (including capital conversion buffer).

Loans and Financing:

The increase in gross loans and financing in 2020 reflects the Bank's strategy of active balance sheet management during challenging times, to position the Bank for sustainable profitable growth in the coming years. The Bank's gross loan and financing increased by

RO 180.982 million to RO 2.277 billion as of 31 December 2020 from RO 2,097 billion as of 31 December 2019. The focus in 2020 was to maintain high-asset quality, which reflected in the low non-performing loans to gross loans ratio of 2.92 per cent, comparably the lowest amongst its industry peers.

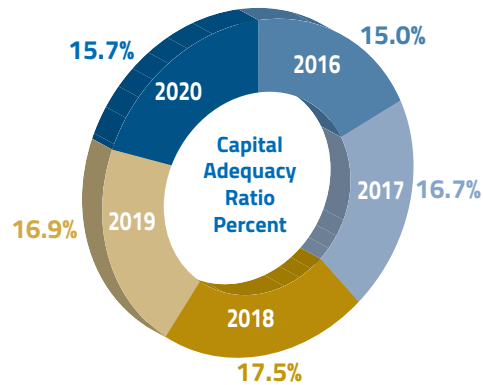
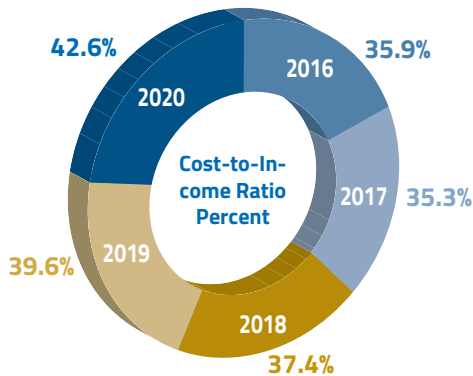
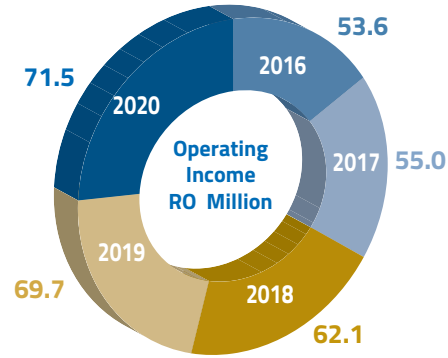
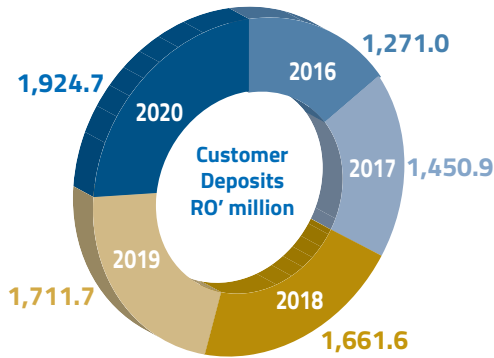
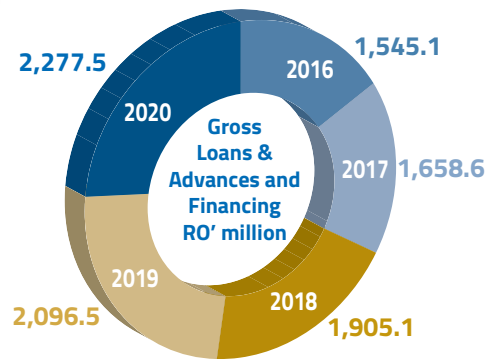
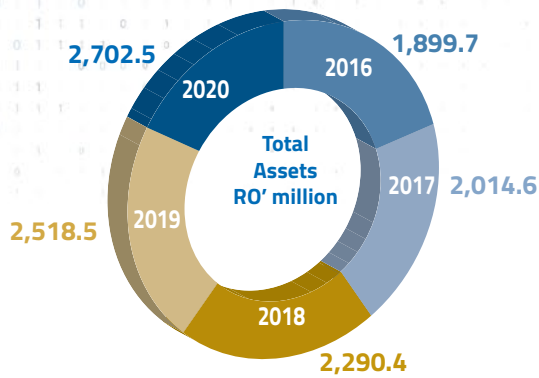
Customer Deposits:

Customer deposits of RO 1.925 billion at year-end 2020 reflected an increase of 12.4 per cent compared to 2019, which is mainly on account of the increase in low-cost deposits. The Bank maintains its

strategy to focus on expanding a lower cost-funding base through new product launches and retail branch expansions.

Profitability:

The net profit after tax decreased by 22.6 per cent to RO 23.97 million as compared to 2019, mainly due to the increase in loan loss provisions as a result of the pandemic-related slowdown. The Bank was able to maintain the cost-to-income ratio at 42.6 per cent, notably one of the best amongst its industry peers.



Business Units

The Bank is focused to constantly augment its effective governance policies, prudent risk assessment procedures, cost-efficiency strategy and the introduction of new products and services to promote the interests of its stakeholders and ensure its long-term sustainability. Its employees are encouraged to aim high, enabled with a sense of empowerment to achieve their tasks. Coupled with continued training and development, the management aims to continuously build a talent pool that is able to achieve high-quality performance and innovation. Furthermore, the Bank strives to provide its customers with optimal banking propositions through convenient channels in a timely manner with the highest levels of accuracy and reliability. In line with the latest trends in digital banking, it is continuously investing in new and secure technologies in order to provide world-class customer service and experience through a multiple choice of platforms.

Corporate Banking

ahlibank's corporate banking brand continues to grow in stature. Its industry-specific teams boast a deep understanding of their respective local and regional market segments, working to ensure the delivery of insightful relationship management with fast turnaround times across its product spectrum. These divisions comprise:

Food and general trading;

- ▶ Contracting and manufacturing;
- ▶ Energy and utilities;
- ▶ Real estate;
- ▶ Financial services;
- ▶ Travel, tourism and transport
- ▶ Sharia-compliant Islamic banking services through ahli islamic counters

The Bank has aligned the teams in way that will allow them to focus on the sectors that form part of the Sultanate's diversification strategy and Vision 2040, thereby creating wealth through economic diversification and private sector partnerships. It continues to contribute towards the economic development of these sectors through the funding of various projects and providing a comprehensive range of competitively priced funded and non-funded financial products and advisory services.

SME Banking

SMEs continue to play a vital role in the economic development of Oman. The development of the sector contributes towards employment generation, exports, facilitation of equitable distribution of income as well as reducing the dependency on oil and contribution to the country's GDP. With Oman reviving and refocusing its interest and energy in small and medium enterprises, the country has developed various programs to set up new units that will be given support, while counting on the banks to continue to play an

imperative role in the development of this sector.

Corporate Liabilities

A dedicated team is tasked to focus on increasing the liabilities of the Bank, offering its corporate clients a range of liability products from operative accounts, call accounts, fixed as well as structured deposits. Its customer-centric team recognizes the importance of relationship building, ensuring that a comprehensive range of products is provided to the client as well as to their employees. With a focus on low-cost deposit to diversify the funding base of the Bank, the team continues to grow to complement the Corporate Banking lending and retail banking team.

Government Banking

The Government Banking unit was established to cater to the needs of government bodies and institutions. This includes Ministries and other offices under the purview of the government, including pension funds. The unit ensures customized products and services that will cater to the needs of the government's diverse banking requirements. The Unit collaborates with other departments within the Bank, such as Corporate Banking, to cater to the funding needs of the government; Retail, Premium and Private Banking to address the needs of their employees and are able to provide attractive customized packages that align with their requirements.

Corporate E-Channels

To complement the business, the Bank continues to invest and advance its technological and digital infrastructure through its e-channels, a significant move necessitated by the pandemic. The business-to-business platform and corporate internet banking continue to be enhanced with state-of-the-art features to further streamline services for its corporate clients, SMEs and government institutions, focusing on driving efficiencies, enabling clients to focus on their core businesses while ensuring safe cybersecurity measures to guarantee utmost confidentiality.

Retail Banking

ahlibank continues to focus on designing and offering innovative products and services for its customers in order to increase its foothold and market presence, apart from offering seamless engagements and enriching customer experience. As part of its retail branch expansion strategy, it has opened three new branches in 2020, with new branches in the pipeline for 2021. This expansion aims to increase touch points with customers, provide convenient services, on a larger scale, contribute to the development of local communities and widen geographical coverage along with strategic sales plans that will maximize stakeholders' equity in an efficient manner over the medium term.

Products and services that are currently being developed for launching in 2021 includes digital customer banking experiences, e-channel enhancements, higher rewards for its customers, and much more.

Premium Banking

The Bank's clients benefit from the extensive service and financial and non-financial privilege range designed by its pool of internationally experienced experts. Its dedicated Relationship Managers offer personalized services to clients through its various branches.

Services:

- ▶ Dedicated Relationship Manager available at all times to meet customers' banking needs
- ▶ Premium service center and lounges for conduct banking transactions in private
- ▶ 24-hour call center support and free SMS banking services
- ▶ Free Internet banking and mobile banking services

Benefits:

- ▶ Free-for-life credit card and debit card
- ▶ Preferential pricing on deposits and loans
- ▶ Special discounted tariffs on bank charges
- ▶ Discounts and offers from selected premium merchants
- ▶ Personalized concierge service, free travel insurance, purchase protection and extended warranty

Private Banking "Exclusiv"

ahlibank aims to help its clients manage their wealth effectively in order to maximize returns and minimize risk. It provides personalized services to its clients by understanding their financial requirements and providing world-class, tailor-made investment solutions. ahlibank presents a unique combination of local knowledge of the region with global experience. It is able to provide its clients with financial solutions that benefit from continuing on-going research in investment opportunities with one-to-one personalized service that promises complete confidentiality.

Services:

- ▶ Dedicated Private Banking Manager available at all times to meet customers' banking needs
- ▶ Service centers and lounges for conducting banking transactions conveniently
- ▶ 24-hour call centre support and free SMS and Internet banking

Benefits:

- ▶ Free-for-life Infinite credit card and Signature debit card
- ▶ Unlimited complimentary lounge access to over 750 international airports
- ▶ Preferential pricing on deposits and loans
- ▶ Special discounted tariffs on bank charges
- ▶ Discounts and offers from selected exclusive merchants
- ▶ Personalized concierge service, free travel insurance, purchase protection and extended warranty

Wealth Management:

- ▶ Tailor-made investment portfolios, including fixed income and mutual funds, to suit customer investment needs
- ▶ Protection products for customers and their families
- ▶ A team of Certified Wealth Advisors, providing market updates on various products and asset classes.

Cards

ahlibank offers a range of credit and debit cards, across various customer segments: Classic, Gold, Platinum, Signature and Infinite under the credit card category and Platinum and Signature under the debit card category. The credit cards are equipped with exciting features that include redemption against travel miles, travel protection insurance, extended warranty on appliances, airport lounge access, purchase protection, concierge services, etc. The Bank has in also offers 'ahliwards', a card-rewarding system for its customers.

Personal Loans

ahlibank's personal loan facility branded as "MyLoan" offers ready cash with high loan amounts, easy and suitable repayment options, along with competitive interest rates. With simple documentation requirements coupled with a hassle-free experience, MyLoan fulfills all dreams in one go; cash for expanding a business, providing children with the best education, taking dream vacations with loved ones, and much more.

Home Loans

With the most experienced and highly trained staff in home financing, ahlibank offers this service under the brand "MyHome," offering convenient plans to suit everyone's needs. With a host of attractive features including long tenor, standard documentation and attractive interest rates, owning a home is no longer a distant dream. Customers can now build or purchase their dream home, financed by ahlibank's MyHome facility.

Car Loans

ahlibank offers instant car loans to customers with guaranteed fast approvals, financing for new and used car purchases, competitive interest rates, long repayment tenors up to seven years, and high loan amounts.

MySmart

MySmart from ahlibank is a unique savings proposition that offers a high interest bearing savings account along with the flexibility of a transactional account. The account calculates interest on average balances and pays out on a monthly basis. This is coupled with the use of a cheque book to transact freely! Customers are free to use their funds anytime without any notice period, while enjoying high interest rates on the balance available in their account.

Wafra

The Wafra prize draw saving scheme from ahlibank is a savings product that offers cash prizes to lucky customers based on an

automated draw system. Customers keeping high balances with the bank are entitled to higher chances to win prizes. With Wafra, customers can simply open an account today and win tomorrow. Cash prizes as high as RO 250,000 could be won in the “Salary for Life” draw, RO 1000 of which is paid monthly for 250 months. In 2021, there will be four draws for “Salary for Life” at the end of each quarter.

MySaver

With My Saver Plan, customers can invest small amounts on a monthly basis, which multiplies with regular bonuses over a period. An interest rate of 2% p.a. is paid monthly to the account based on the daily available balance. Free life insurance coverage up to RO 50,000 is bundled with the account.

Bancassurance

ahlibank offers a wide range of insurance products to protect its customer’s assets and property. The insurance products cover unexpected events, protecting customers from collateral damage that could otherwise erode savings or investments.

Alternative Channels

In order to meet the growing demand for efficient ATM and online services, ahlibank continues to enhance customer experience by providing convenient and seamless banking services and offering secure and reliable banking technologies.

The Bank has recently launched the Central Bank of Oman’s Mobile Payments System to its mobile banking and wallet app that enables users to receive and transfer money. This upgrade was in line with the Bank’s objective of offering innovative and top-class banking solutions to the Bank’s customers in Oman, implementing new technologies in banking and state-of-the-art Internet and mobile banking platforms that will meaningfully benefit its customers and stakeholders.

ahlibank’s free e-channel service offers 24-hour access to banking services that provides a welcome alternative to visiting a branch. With its conventional and Islamic branches network across the Sultanate, coupled with a host of e-channel services including Internet banking, mobile banking, SMS banking, 24x7 call center, ATMs, CDMs, service centers and kiosks, the Bank remains accessible to customers whenever and wherever they require.

By subscribing to ahlibank’s Internet banking service, customers can enjoy easy access to services such as viewing transactions of accounts and credit cards, making fund transfers locally and internationally, bill payments and issuance of cheque books without having to visit a branch. All these services come with the assurance of the highest standards of online security. For further convenience, all these services are also accessible on smartphones through ahlibank’s mobile banking and SMS banking services. Additionally, ahlibank’s e-statement service allows customers to receive bank account statements and view the summary of every transaction via e-mail. Statements can be received on a daily, weekly or monthly basis.

Apart from its wide range of innovative product and services, ahlibank also has an accessible network of ATMs, CDMs and kiosks across Oman that offer cash deposits, cheque deposits, utility bill payments, credit card payments, mobile top ups, among other services.

Treasury

ahlibank’s professional and experienced Treasury team provides a comprehensive package of services in both treasury and investment products to the corporate, commercial and government institutions. The Treasury prides itself on being one of the most proficient dealing rooms in Oman, providing corporate and individual clients with a wide selection of foreign exchange, money market and derivative products ranging from the traditional to the customized. Its Treasury and Investment division is able to offer best-in-class service with unparalleled access to the local and regional markets. Delivering everyday banking needs effectively and efficiently is critical to the Bank’s success. With a Treasury team that understands business needs and ambitions, with its award-winning service and solutions, it is committed to helping clients succeed.

Financial Institutions

Financial Institutions Group (FI) covers global relationships with credit institutions and serves as entry point and first contact for credit institutions with ahlibank. Leveraging ahlibank’s regional knowledge and banking expertise, the FI team seeks to build strategic and long-term relationships in order to not only meet but also exceed the expectations of its corporate and retail clients. ahlibank is recognized for its customer knowledge and its prospective relationships is highly qualified for global financial institutions to expand Oman corporate business in various countries. The Bank also provides “Nostro service” in major currencies and “Vostro service” for Omani Rial accounts. In addition, ahlibank is providing interbank clearing with over 100 overseas networks in various countries. Complementing the activities of FI is a “Trade Finance Team” specialized in structuring products and services that meet the unique needs of different banks and clients.

FI is highly active in supporting and coordinating ahlibank’s relationship with various correspondent banks and provides an array of products and services including trade finance and international payments. FI manages its correspondent credit relationships through dedicated and experienced relationship managers.

Trade Finance

The Trade Finance Department is a full-fledged specialized department of ahlibank, handling all trade finance requirements of corporate and consumer banking customers. The department is aligned with the Bank’s Wholesale & Retail Banking in providing various fund-based credit facilities such as export finance, bill discounting, receivables/invoice finance, loans against Imports and non-fund based credit facilities such as the issuance of letters of credit, standby letters of credit, guarantees, export and import bills for collection, avalization of import bills for collection, advising and handling of documents under export letters of credit and risk

participation for local and overseas transactions. The Bank's Trade Finance team is well-experienced, trained and updated with the requisite skill set, latest developments in the local and international markets, the rules governing international trade with a focus on customer service.

Asset Management

ahlibank managed its equity fund and discretionary portfolios in a very challenging market environment due to the negative impact of COVID-19 on GCC markets. Its Al Hilal MENA Fund (Sharia-compliant) lost 1.16 per cent (FY 2020) adjusted for RO 0.050 dividends paid for the previous year. In contrast, MSM Sharia Index declined 0.51 per cent while S&P GCC Sharia Index ended up at 5.3 per cent in 2020.

The Asset Management division is undergoing an expansion process to enhance its existing offering to clients. ahlibank has built an enviable investment management infrastructure and expertise to cater to the Omani and regional markets over the years.

Corporate Finance Advisory

The Bank's Corporate Finance Advisory services are offered to clients, which include governments, public authorities, corporations, and financial institutions. The service offerings include, among others: Initial Public Offerings (IPOs), acquisition financing advisory, equity/debt placement services, syndication advisory, issue management, securitization, underwriting advisory, mezzanine funding advisory, mergers and acquisition advisory and structured Islamic financing advisory.

Brokerage: Brokerage services covers both Oman and other GCC regions by providing differentiated and focused services through dedicated professional brokers. ahlibank has recorded a market share of 5.4 per cent and was ranked sixth out of 14 brokers in Oman in 2020.

ahli islamic

ahli islamic has shown robust growth since its launch in 2013. The Sharia-compliant products and services offered by ahli islamic cater to all customer segments, including institutional, corporate, SME and retail, through twelve dedicated branches located in Wattaya, Bahla, Rustaq, Saham, Salalah, Samail, Al Khoud, Sinaw, Sohar, Barka, Jalan, and Ghoubra. In addition to the branches in strategic places, customers are served through ATMs, CDMs, e-banking and mobile banking services across the Sultanate.

With the launch of e-banking and mobile banking, ahli islamic has achieved yet another milestone in offering seamless, round-the-clock banking services to its customers. With this state-of-the-art system, customers can now view their balances and statements, transfer funds between bank accounts, to other banks in Oman, and internationally, open linked accounts and term deposits, get cheque books and manager cheques issued anytime at their convenience.

Deposit Products

1. Current Account - Non-profit paying, transactional account for individuals, corporates and institutions
2. Savings Account - Profit paying account for regular savers who want to get the benefit of receiving Sharia-compliant profit on their savings
3. Al Namaa Islamic Savings Account - High profit paying, transactional account for individuals who want high profit earning based on their balances, without binding the funds for any tenor
4. Term Investment Account - Term deposits under Mudaraba and Wakala modes for customers who want to earn higher profit, at easy terms of 12 months, 24 months, 36 months, etc.
5. Qitaf Savings Account - Profit paying account, transaction account for individuals allowing them to win cash prizes weekly, monthly, quarterly, and on special occasions.
6. ahli islamic's deposit products are bundled with a free cheque book (current and Al Namaa savings account), free debit card, free account statements, free cash deposit / withdrawals through branches and ATMs / CDMs, free e-banking, mobile banking, and a host of other features.

Financing Products

1. Personal (Goods) Finance - High financing amount with a repayment period of 10 years at a very competitive profit rate in order to meet personal financing requirements of Islamic Banking customers.
2. Auto Finance - Easy repayment tenors at very affordable profit rates with higher amount limit for new and used car buyers, with the option of salary and non-salary transfers, ahli islamic's Auto Financing is the most attractive product in the market.
3. Home Finance - Up to 80 per cent of the property value for both, ready property buying and for construction for a period of up to 25 years for people who are looking to buy or construct their houses.
4. Service Ijarah Personal Finance - Service agreements with various service providers (Education Financing, Membership Financing, Travel Financing, Hajj and Umrah Services Transportation, Medical Expenses Financing, Marriage Expenses Financing, Construction / Developer Expenses Financing), where ahli islamic purchases the customers' desired services and extends the service through Ijara.
5. Credit Cards - Visa Platinum and Signature, socially responsible Islamic credit cards, bundled with the benefits of global airport lounge access, no annual fee, Takaful insurance protection, travel and lifestyle deals. Many discounts and offers are available for credit card customers.

In addition to the aforementioned services, ahli islamic Banking also offers customized products to corporate and SME entities:

1. Working capital finance
2. Term and fixed asset financing
3. Project financing
4. Trade services - import murabaha
5. Vehicle and machinery leasing

ahli islamic, with thorough expertise in Islamic Banking, can also design customized products for its clients.

Risk Management

The Risk Management Division closely monitors the core risk areas and reports to the Board Risk Committee. The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions and its credit and operational activities are not exposed to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, nor concentrated, relative to the Bank's capital and financial standing.

The Bank manages the risks effectively and efficiently by monitoring and approving all retail and commercial credit applications. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to identifying the various associated risks. The Bank complies with Basel III Norms as well as IFRS9 guidelines issued by the Central Bank of Oman. It has implemented an IT system for calculating liquidity ratios and capital adequacy ratio and a system for facilitating IFRS9 related calculation.

The Risk Management Division formulates policies and procedures, taking into account regulatory requirements and best international practices, to monitor and control exposures within pre-determined acceptable limits.

The key to this approach is a robust and responsive organizational structure around each of the risk categories with appropriate delegated authorities from the Board of Directors. To ensure its independence, the Bank's Risk Management Department reports directly to the Executive Risk Committee, a Board sub-committee.

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. Risks covered include credit, market, operational, interest rate risk, liquidity risk, etc. The Risk Management Division has identified material risks that the Bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

The following Board and Management Committees manage and control material risks to the Bank:

Board Committees

- ▶ Audit and Compliance Committee
- ▶ Executive and Credit Committee
- ▶ Executive Risk Committee
- ▶ Nomination and Remuneration Committee
- ▶ Head Office Project Committee

The Head office project committee is responsible for an effective and detailed review, assessment, consultation, decision-making process and oversight of the head office expansion project of the Bank and manage the timely execution of related deliverables within Board-approved parameters, until the completion of head office extension project.

Executive Management Committee

- ▶ Credit and Investment Committee
- ▶ Assets and Liabilities Committee
- ▶ Credit Risk Management Committee
- ▶ Operational Risk Committee
- ▶ IT Steering Committee
- ▶ New Product Committee
- ▶ Special Assets Committee

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

Policies and Procedures

The Board of Directors, under its terms of reference, controls and directs the Bank on behalf of the shareholders, its conduct of business, setting objectives and strategies by establishing policies under which the Bank operates. The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and their framework for their effective implementation and control, including delegated authorities to the Executive and Credit Committee and Management to approve all credit exposures. In this context, the Board of Directors has approved the following policies:

1. Anti-Money Laundering Manual
2. Personal Account Dealing Policy
3. New Product Policies and Procedures
4. Voice Recording Policy
5. Compliance Policy
6. Corporate Communication and Marketing policy
7. Corporate Governance Policy
8. Corporate Social Responsibility Policy
9. Dividend Policy
10. Expenses Policy
11. Capital Management Policy
12. Disclosure Policy

13. Board Remuneration Policy
14. Financial Institutions Policy
15. Human Resources Policy
16. Outsourcing Policy
17. Code of Business Conduct
18. Information Security Management Policy
19. Business Continuity Management Policy
20. Credit and Investment Policy
21. Operational Risk Management Framework
22. Operational Risk Management Policy
23. Fraud Risk Management Policy
24. Fraud Risk Management Framework
25. Liquidity and Funding Policy
26. Market Risk Policy
27. Risk Management-Approach & Framework
28. Social and Environment Management System Policy
29. Security and Safety Policy and Plan
30. Asset Management Policy
31. Brokerage Policy
32. FATCA Policy
33. Customer Complaints Redressal Policy
34. Social Media Policy
35. Electronic Banking Policy
36. Classification and Measurement Financial Assets and Liabilities
37. Sanctions Policy

Islamic Banking Related Policies

1. *Profit Distribution Policy*
2. *Charity Policy*
3. *Zakah Policy*
4. *Cost-Sharing Policy*
5. *Segregation of Funds Policy*
6. *Shari'a Governance Manual*

All policies are subject to annual reviews. Any change in law or regulation is automatically adopted and implemented immediately upon its issuance (i.e., prior to the final amendment of the underlying policy or procedure).

Response to COVID-19

The Bank has taken various countermeasures in response to the precarious situation posed by the current pandemic to ensure that people, systems, processes and businesses are safeguarded at all times, along with management of credit, liquidity and operational risk. These countermeasures included the following:

- Intensified and continuous credit monitoring, especially in relation to most affected sectors;
- Estimated and accounted for ECL in relation to management overlays/ post-model adjustments;
- Generated different GDP and PDs (for affected sector customers) scenarios during 2020 to calculate management overlays/ post-model adjustments;
- Deferrals were provided to all affected customers;
- Additional ECL in the form of overlays for other matters such as declining collateral value;
- Scenario weightages were also revisited and revised in 2020;
- Rigorous monitoring of key liquidity metrics and forecasts;
- Activation of the Crisis Management Team (CMT) of the Bank;
- The Bank has compiled a user manual namely "Shutdown Scenario Process Manual" wherein procedures for all critical functions of the Bank have been included to facilitate the smooth functioning of the critical services offered by the Bank in a possible scenario of partial/ complete lockdown;
- Working from home and splitting teams amongst many other measures were applied to ensure business continuity;
- Taken various preventive measures to mitigate cyber security risk;
- Keeping employees and customers aware of potential fraud risk and cyber threats resulting from the current pandemic situation;
- Ensured that the Bank continues to be adequately covered for any unforeseen cyber-related frauds; and
- Continuous monitoring of the impacts of the pandemic on the financial position and capital of the Bank.

Internal Audit

The Internal Audit function reviews and provides an independent assurance to the Board of Directors and Executive Management on the effectiveness of the Bank's internal control, risk management and governance systems and processes. The Internal Audit function at ahlibank has adopted an audit methodology and standard which is in line with globally accepted methodology and standards propounded by the Institute of Internal Auditors (IIA), USA. It is an integral part of the control environment of the Bank and provides independent assessment and reviews through the audits based on a risk-based annual plan. It shares the findings with the senior management and submits the same to the Audit & Compliance Committee. All issues are followed up for timely corrective actions and their logical conclusions.

Information Technology (IT)

Keeping the business continuity as one of the key focus, ahlibank has acquired a co-location service through Oman Data Park (ODP) and has placed the secondary data centre in ODP using a hyper defined converged technology and on a premise cloud-ready environment.

The Bank has also invested in connectivity links between the Head Office (HO) Data Centre (DC) and Disaster Recovery Centre (DRC) by moving to dark fibre link. The investment on DRC and the link will provide the Bank's technology services from the alternative location when the need arises.

IT has started the focus on self-sufficient programs by recognizing in-house technical talent to develop applications on a low-code platform. In this focus, IT has successfully completed the development of Internet and mobile application for Islamic Banking. The focus on self-sufficiency will continue to address the Bank's future requirements.

IT has deployed many initiatives as part of digital transformation strategy covering all the lines of business. To state a few, some of the recently implemented solutions include B2B, PASI payments, Salary and Bulk payment for SMEs, Khatm solution and APTRA Activate on all ATMs.

As part of digital transformation, IT is committed to provide the business with cutting-edge solutions such as Digital Branch (MFK), Internet/mobile banking enhancements, paperless PIN for debit/credit card, CRM, loan management, lead management, legal management, SWIFT GPI/PCS, and many enhancements on Business Process Management (BPM) to enable operational excellence and meet business objectives.

ahlibank is fully committed to support countrywide initiatives carried out by the Central Bank of Oman (CBO) to push the digital transformation journey in the financial industry. In this respect, IT has successfully implemented Oman Credit Bureau (OCB), new AML system and commenced activities on GCC RTGS. In support of countrywide initiatives, IT has also commenced activities on Value-Added Tax (VAT) application.

Other IT transformation achievements include the upgrade of the conventional core banking system to support new branch teller systems, launch of multiple workplace digitisation tools as well as a comprehensive Windows 10 upgrade for all ahlibank staff, in addition to multiple information security initiatives to drive robust data protection.

IT is exploring emerging technology trends, along with several other aspects of delivery methodologies, to ensure time to market products and services.

Human Resources

ahlibank believes that its employees are the key to its success. The Human Resources Department (HR) plays a vital role in aligning individual goals with the Bank's long-term strategy. The Bank has nurtured a culture of balancing between performance-based targets and employee well-being. This balance has helped in sustaining a higher level of performance as well as provide an enriching experience for its employees.

The Bank's Human Resource philosophy is to hire the right talent and provide a collaborative work environment for all employees that enables them to successfully perform, develop and grow. To enable and empower young Omani talent, the Bank has designed and implemented several programs. This year, the Human Resources Department continues its effort towards recruiting recently graduated young Omanis in different programs. The "Graduate Development Program" will successfully start in taking its seventh batch; while the "Business Program" will welcome its fourth batch by Q1 2021. In addition, the highly anticipated "Diploma Program" will welcome the first batch in 2021.

With the diversification culture within ahlibank; the HR team continues to ensure that opportunities are given to Omanis from different regions as and when new branches open throughout the year. This comes as part of the Bank's Social Responsibility initiatives and its commitment towards creating job opportunities and contributing to Oman Vision 2040. In 2020, ahlibank created 113 jobs, as it has consistently exceeded its Omanization targets with a constant flow of young Omanis coming for internship programs to gain firsthand experience in an office setup environment.

Additionally, the HR Department ensures that it provides an effective practice in developing and sustaining employees' engagement through a healthy, positive working environment, encouraging cross-function employees involvement and job enrichment through empowerment.

Corporate Social Responsibility

ahlibank is committed to social responsibility as an important part of its overall operation, and strives to provide a framework that helps create added value to the community it operates in. Under its 'Ahli Cares' CSR initiative, it continues to support the great charitable and voluntary efforts of associations and charitable groups in the Sultanate, which play a leading role in the development of various sections of the society and its members through philanthropic activities and initiatives.

The Bank's CSR efforts support Oman's Vision 2040 which is aimed at the socio-economic development of the country's people and communities. CSR is at the heart of ahlibank's overall strategy, demonstrated through the implementation of programs aimed at

enriching the lives of many across the Sultanate. The Bank's support to diverse social, educational, cultural, health, and sporting activities in Oman is ongoing and fundamental to its corporate values. This is of utmost importance to both the Bank's staff and leadership. Through its various CSR activities, it demonstrates its dedication to people's welfare at multiple levels.

Investing in Local Communities: Over the last few years, ahlibank has been able to implement and launch several initiatives that have benefited broad and diverse segments of society. This included contribution of OMR 1 million to support the Sultanate's efforts to deal with the COVID-19 pandemic. The fund was effectively utilized to provide the necessary healthcare equipment and basic necessities, addressing the nation's call to combat coronavirus, in support of the government's efforts.

Furthermore, the Bank has taken the initiative to support the insolvent through charities and charitable teams and pioneer initiatives for their benefit. As part of Ahli Cares, it has continued to provide financial support to the 'Fak Kurbah' initiative implemented by the Omani Lawyers Association for the seventh year, in coordination with the Ministry of Social Development and the Council of Administrative Affairs for Judiciary, which seeks to provide welfare to the families of those detained in non-criminal cases in various governorates of the Sultanate. This is evident of the Bank's keenness to support various community initiatives in the Sultanate that contribute to enhancing the values of charitable, voluntary and social work, throughout the year, especially in the month of Ramadan.

ahlibank provides support to a number of charity associations during the holy month of Ramadan.

Partnership to Support other Sectors: ahlibank's social responsibility policy is particularly important and receives special attention and care from Bank officials as a result of the impact it has on various segments of society.

Reflecting a strategic partnership between the public and private sectors, ahlibank has recently launched public parking spaces in the square opposite the Bank's headquarters in Al Wattayah, in cooperation and under the supervision of the Municipality of Muscat. This led to the provision of public services and various facilities, and increased the green area on public roads and residential neighborhoods in the vicinity to suit the area's stature of being a hub for business and leisure visitors from across the world.

Empowering Omani Youth: ahlibank is committed to promoting young talent and providing them a platform to embark on a career in the banking sector. The Bank has carried out specialized training and development programs under its flagship initiative Graduate Development Programme (GDP), where fresh graduates are inducted into the workings of Oman's banking and fintech sector. The program

is aimed at providing job opportunities to the young national work force in different specialties. Apart from exceeding the Omanization targets, the Bank has successfully inducted management trainees into its workforce.

ahlibank's CSR policy reflects its efforts to maximize the creation of sustainable and shared value for its stakeholders and the society in which it operates. The Bank stands committed to implement best business practices within the framework of a culture of social responsibility.

Looking Forward

The year 2021 has brought with it a sense of optimism and an increased confidence that this year will be much better than the last. The past year has brought many new and difficult challenges that has helped encourage and strengthen resiliency and build strength of character. Oman's economy is anticipated to recover on the basis of various measures introduced by the government in terms of the Medium-Term Fiscal Plan 2020-24. Through the plan, Oman seeks to enhance fiscal sustainability as one of the most important enablers of the Oman 2040 Vision, support economic growth, strengthen the social protection system, rationalize and raise the efficiency of government spending, and stimulate and diversify government revenue sources.

The plan includes a set of initiatives, some of which have already been implemented, while other initiatives will be implemented in accordance with priority and readiness, taking into account economic and social impacts. A comprehensive social protection system based on some financial policies has been developed for low-income people.

ahlibank will continue to empower the youth and support SMEs to build national talent and local capabilities. It remains committed to its prudent growth strategy to maintain a winning streak of excellence and maximize value for all stakeholders by leveraging emerging opportunities and remaining resilient to market challenges. It will continue to expand its branch network across Oman while keeping pace with changing market demands to enable it to create innovative customer-centric services. It will also place greater focus on adopting new digital technologies in order to continuously provide financial services that are fully aligned on its customers' needs.

We look forward to continuing our journey towards becoming a new age bank, entrenched with a strong and deep commitment to support and pursue the goals of the Sultanate.

SECTION III

GOVERNANCE & FINANCIAL STATEMENTS

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REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF AHLI BANK SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Ahli Bank SAOG ("the Bank") as at and for the year ended 31 December 2020 and application of the corporate governance practices in accordance with amendments to the CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Code').
2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors of the Bank in complying with the requirements of the Code issued by the CMA.
3. We have performed the following procedures:
 - (a) We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and
 - (b) We have obtained the details of the Bank's compliance with the Code, including any non-compliances identified, by the Bank's Board of Directors, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes and/or a checklist prepared by the Board of Directors to identify any non-compliance.
4. As a result of performing the above procedures, we have no exceptions to report.
5. Because the above procedures do not constitute either an audit performed in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.
6. Had we performed additional procedures or had we performed an audit in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.
7. Our report is solely for the purpose set forth in paragraph 2 above and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2020 and does not extend to the financial statements of Ahli Bank SAOG taken as a whole.

**Muscat, Sultanate of Oman
9 March 2021**

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CORPORATE GOVERNANCE REPORT-2020

INTRODUCTION

Sound and effective corporate governance is the foundation on which any organization or institution rests and operates. The execution of good and best practices—accountability, fairness, responsibility and transparency—are crucial in creating and sustaining shareholder value, and enhancing and retaining investor trust.

The Bank’s Corporate Governance Policy provides the framework for the principles of effective Corporate Governance standards across the Bank. The Capital Market Authority (CMA) directives, including the Code of Corporate Governance and the Central Bank of Oman (CBO) circular BM 932 on Corporate Governance in Banks, are the principal codes and drivers of the corporate governance practices in the sultanate. ahlibank SAOG fully complies with all of their provisions.

The timely and accurate disclosure of information regarding the financial situation, performance, ownership of the Bank is high on its corporate governance principles, as it improves the public understanding of the structure, activities and policies of the Bank. It also endeavors to enhance long-term shareholder value and respect minority rights in all its business decisions.

Alongside its commitment to protect the interest of its stakeholders is the Bank’s goal of respecting and upholding the duty of the Board and senior management to oversee its affairs, ensure accountability, inculcate integrity and promote long-term growth and profitability. Serving as the core of the corporate

governance practice, the independent Board ensures that the Management is aligned with the long-term interests of all its stakeholders with the objective of maintaining the highest standards of corporate governance.

ahlibank’s corporate governance philosophy is based on the following principles:

1. Satisfy the spirit of the law and not just the letter of the law.
2. Be transparent and maintain a high degree of disclosure levels.
3. Communicate externally, in a truthful manner, about how the Bank is run internally.
4. Implement a simple and transparent corporate structure driven solely by business needs.
5. Management is the trustee of the shareholders’ capital and not the owner’s.
6. Practice fairness and equality to shareholders, employees and related parties.

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLIBANK SAOG

Good Corporate Governance is critical in supporting the delivery of our strategic objectives. Our Board Committees play an important role in working closely with the Management to ensure that our business is financially strong, and risks are immediately identified and mitigated. Over the years, the Board has developed a corporate governance culture to help fulfill our corporate responsibility to various stakeholders. This guarantees that the Board will maintain the necessary authority and practices in place to properly review and evaluate our operations periodically.

To rightfully comply with regulatory requirements and ensure implementation based on best industry practices, five Board level sub-committees have been set up to ensure effective functioning of the Board.

ahlibank SAOG’s Corporate Governance Structure



Corporate Governance Report-2020 *(continued)*

BOARD OF DIRECTORS AND SUB-COMMITTEES OF AHLIBANK SAOG

Board of Directors:

Our collective principal duty is to promote the long-term success of the Bank by creating and delivering sustainable shareholder value. We do this by setting the strategy and ensuring that the Management oversees its implementation by management. We also seek to ensure that there is a balance between delivering on the short-term objectives and focusing on long-term growth.

Size and Terms of the Board

The Board of Directors consists of nine non-executive Directors. The term of office of the Board of Directors is three years, which will expire in March 2023.

Profile of Board Members

Hamdan Ali Nasser Al Hinai,

Chairman

Holds a Masters degree in Development and project management, Bachelors in Business Management & Economics and Diploma in International Development Management; Former Director General, Purchasing and Contracts, Ministry of Defense.

Anwar Hilal Hamdoon Al Jabri,

First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Chairman, Ubhar Capital SAOC; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Has more than 21 years of industry experience and various leadership positions.

Sanjeev Baijal,

Second Deputy Chairman

Chartered Global Management Accountant under the Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA); Deputy Group CEO: Finance and Strategic Development, Ahli United Bank

BSC, Bahrain; Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India. (Total years of experience: 37).

Keith Henry Gale,

Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK; Associate Member of the Institute of Chartered Accountants England & Wales (ACA); Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Previously Group Head of Risk Management, Ahli United Bank, Bahrain (19 years of experience at Ahli United Bank); Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.

Abdul Hameed Ahmed Mohamed Al Bulushi,

Director

Holds a High Diploma in Development, United Kingdom; Bachelors degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Has more than 29 years of experience in the Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.

Rajeev Gogia,

Director

Member of the Institute of Chartered Accountants of India and Bachelor in Commerce, India; Group Head of Strategic Development at Ahli United Bank BSC, Bahrain; Board Member of Ahli United Bank (Egypt) SAE; Board Member of Al Hilal Life B.S.C.(c); Al Hilal Takaful B.S.C. (c), Bahrain; Previous experience as Senior Division Head – Strategic Development, National Bank of Dubai, UAE; Vice President (Consulting & Business Development), Polaris Software Lab Ltd., UAE; Executive Consultant, KPMG, UAE. Has over 23 years of industry and advisory experience in formulating and implementing corporate strategies, mergers and acquisitions, capital raising and management, P&L oversight, investments, etc.

Ibrahim Said Badar Al Eisri,

Director

A member of the Association of Chartered Certified Accountants (ACCA), Masters in Finance, Oxford Brookes University, UK and Bachelor's Degree in Commerce Major Accounting & Finance, Curtin University of Technology, Perth, Australia; Director Private Equity Oman Investment Authority (OIA); Chairman, Rakiza Infrastructure Fund; Director Al Hosn Investment Company; Omantel; A member of the Income Tax Committee, Ministry of Finance. Has over 17 years of experience in different sectors such as telecommunications, oil and gas and financial and investments; Has held different leadership roles in Finance and Investment Operations.

Juma Rashid Saif Al Jahwari,

Director

Holds an MSc in Financial Management, the University of Greenwich, London, UK and BSc in Economics, Beirut Arab University, Muscat, Oman. Chief of Finance & Administration – The Royal Office Pension Fund. A Board member of Oman Future Telecommunications Company, founding member of the IIA Oman Chapter and member of Board of Governors – Institute of Internal Auditors (Oman Chapter IIA-Oman). Former Counselor, Ministry of Foreign Affairs, Embassy of the Sultanate of Oman, Washington DC. He has also held different positions in the Royal Office.

Salim Ali Hamed Al Hasni,

Director

Holds a Masters degree in Science in Commercial Project Management from the University of Manchester – College of Mechanical, Aerospace & Civil Engineering and Bachelor of Science (Commerce & Economics) from Sultan Qaboos University. Deputy Director for Procurement - Ministry of Defense. Chairman of the Board of Directors of Reem Batteries & Power Appliances SAOC; Vice Chairman of Sohar Power Company SAOG. Has more than 15 years of experience in the Ministry of Defense in different positions.

Executive Powers of the Board:

1. Approving financial objectives, business and financial policies of the Bank.
2. Approving internal regulations as well as specifying the powers, responsibilities and authorities of the executive management.
3. Reviewing and monitoring the disclosures and compliance with regulatory requirements.
4. Nominating the members of the sub-committees, CEO and key employees.

Details of the Number of Board meetings held during the year 2020:

Sl. No.	Board Meeting
1.	23-Jan-2020
2.	29-Apr-2020
3.	03-Jun-2020
4.	25-Jun-2020
5.	29-Jul-2020
6.	26-Oct-2020
7.	12-Nov-2020
8.	14-Dec-2020

Directors Attendance Record in the Board Meetings:

Name of Director	Position	Type of Directorship	Board Meetings Attended	# Sub-committees memberships (at year end)	Whether attended last AGM
Hamdan Ali Nasser Al Hinai	Chairman	Independent	8	NRC, HOPC	Yes
Anwar Hilal Hamdoon Al Jabri	First Deputy Chairman	Independent	8	ECC, NRC	Yes
Sanjeev Bajjal	Second Deputy Chairman	Non-Independent/ Representing Ahli United Bank	8	ACC	Yes
Keith Henry Gale	Director	Non-Independent	8	ERC, NRC, HOPC	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Director	Independent/ Representing Civil Service Employees Pension Fund	8	ACC, ERC, HOPC	Yes
Rajeev Gogia	Director	Non-Independent	8	ECC	Yes
Ibrahim Said Badar Al Eisri	Director	Independent	8	ECC	Yes
Juma Rashid Saif Al Jahwari *	Director	Independent	4	ACC	N/A
Salim Ali Hamed Al Hasni *	Director	Independent/Representing Ministry of Defense Pension Fund	6	ERC	N/A
Mustafa Shafqat Anwar **	Director	Non-Independent	2	ERC, HOPC	Yes

* Elected as a Board Member on 3 June 2020.

** Completed his term of office on 3 June 2020.

Audit and Compliance Committee - ACC, Executive and Credit Committee - ECC, Executive Risk Committee - ERC, Nomination and Remuneration Committee – NRC, Head Office Project Committee – HOPC.

Independent directors are defined as per principle Eight of Code of Corporate Governance of MSM Listed Companies, revised definition issued through circular E/4/2015 dated 22 July 2015.

SUB-COMMITTEES

ahlibank has five Board sub-committees to ensure the smooth functioning of the Bank:



Corporate Governance Report-2020 *(continued)*

A. Audit and Compliance Committee

The role of the Audit and Compliance Committee includes:

- Reviewing the scope of external and internal audits and oversee the adequacy of the Bank's internal control systems through the reports of the internal and external auditors.
- Reviewing the quarterly and annual financial reports before submission to the Board for approval.
- Assist in discharging Board's oversight responsibilities relating to the Bank's accounting, corporate governance, risk management systems and compliance procedures.

Composition of Audit and Compliance Committee and Details of Meetings and Attendance Record of Members During the Year 2020:

Composition of Audit and Compliance Committee		Meeting Dates			
Director's Name	Position	23-Jan-20	29-Apr-20	29-Jul-20	26-Oct-20
Juma Rashid Saif Al Jahwari *	Chairman	N/A	N/A	Yes	Yes
Sanjeev Bajjal	Member	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi **	Member	Yes	Yes	Yes	Yes
Ibrahim Said Badar Al Eisri **	Member	Yes	Yes	N/A	N/A
Attendance		3	3	3	3

* Elected as a Board Member on 3rd June 2020. ** Re-composition of Board sub-committees on 3rd June 2020.

B. Executive and Credit Committee

The role of the Executive and Credit Committee includes:

- Providing the Board with a mechanism for considering in depth, any issue that the Board considers to be that requiring detailed attention.
- Allowing the Management to obtain input for the development of proposals prior to Board submission.
- Approving matters beyond the Management's delegated authority but which do not need full Board approval.
- Focusing on strategic reviews and proposals, investments, treasury and liquidity management, business plans and other such matters.

Composition of Executive and Credit Committee and Details of Meetings and Attendance Record of Members During the Year 2020:

Composition of Executive and Credit Committee		Meeting Dates			
Director's Name	Position	29-Jan-20	28-Apr-20	28-Jul-20	25-Oct-20
Anwar Hilal Al Jabri	Chairman	Yes	Yes	Yes	Yes
Rajeev Gogia *	Member	Yes	Yes	N/A	Yes
Ibrahim Said Badar Al Eisri *	Member	N/A	N/A	Yes	Yes
Keith Henry Gale *	Member	Yes	Yes	Yes	N/A
Attendance		3	3	3	3

* Re-composition of Board sub-committees.

C. Executive Risk Committee

The role of the Executive Risk Committee includes:

- An integrated approach to managing the risks inherent in various aspects of our business.
- Monitoring risk levels according to various parameters and the Management is responsible for ensuring mitigation measures.
- Focusing on reviewing all policies governing Bank's risk and funding exposure.
- Ensuring the consistent adherence and implementation of the Board-approved policies and treasury strategies in monitoring market and other risks.

Corporate Governance Report-2020 *(continued)*

Composition of Executive Risk Committee and Details of Meetings and Attendance Record of Members During the Year 2020:

Composition of Executive Risk Committee		Meeting Dates			
Director's Name	Position	29-Jan-20	28-Apr-20	28-Jul-20	25-Oct-20
Keith Henry Gale *	Chairman	Yes	Yes	N/A	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi *	Member	N/A	N/A	Yes	Yes
Salim Ali Hamed Al Hasni *	Member	N/A	N/A	Yes	Yes
Rajeev Gogia *	Member	N/A	N/A	Yes	N/A
Ibrahim Said Badar Al Eisri *	Member	Yes	Yes	N/A	N/A
Mustafa Shafqat Anwar **	Member	Yes	Yes	N/A	N/A
Attendance		3	3	3	3

* Re-composition of Board sub-committees. ** Completed his term of office on 3 June 2020.

D. Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee includes:

- Reviewing the performance of all directors and the Management.
- Advising the Bank's Board and Chairman on the remuneration of Board Members, appointment of senior management personnel and remuneration of senior management personnel.
- Helping in the nomination of competent Board members and electing the best.
- Annual assessment of the Board's/Sub-Committees overall performance

Composition of Nomination and Remuneration Committee and Details of Meetings and Attendance Record of Members During the Year 2020:

Composition of Nomination and Remuneration Committee		Meeting Dates		
Director's Name	Position	23-Jan-20	28-May-20	28-Jul-20
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes	Yes
Anwar Hilal Hamdoon Al Jabri	Member	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes
Attendance		3	3	3

E. Head Office Project Committee

The Head office project committee is responsible for an effective and detailed review, assessment, consultation, decision-making process and oversight of the head office expansion project of the Bank and manage the timely execution of related deliverables within Board-approved parameters, until the completion of head office extension project.

PROCEDURE FOR STANDING AS A CANDIDATE FOR THE BOARD:

Anyone who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of Association, is required to submit an application form (as prescribed by the Capital Market Authority) at least two working days before the fixed date for the General Meeting for election of the Board members. The application shall be reviewed by the Nomination and Remuneration Committee of the Bank to ensure eligibility of the candidate and further recommendation to the Annual General Meeting. The Bank shall lodge the application form with the Capital Market Authority before the date of the General Meeting.

The director shall be elected through direct secret ballot by the shareholders. Each shareholder is entitled to the number of votes equal to that of his/her shares.

SHARIA SUPERVISORY BOARD OF AHLI ISLAMIC BANKING SERVICES-AHLIBANK SAOG

Sharia Supervisory Board:

The Sharia Supervisory Board (SSB) is an independent body of specialized jurists in fiqh al-muamalat (Islamic commercial jurisprudence), appointed with the responsibilities of giving Sharia directives, advice and approvals from the formation stage to the operations stage of the Bank, ensuring Sharia compliance of the Bank by giving decisions on Sharia Audit reports and producing a statement about Sharia compliance of the Bank. The SSB complies with the regulatory requirements of the Central Bank of Oman in respect of their supervision and advisory role of the Bank. The Fatawa and rulings of the SSB are binding on the Bank's Islamic Banking Services. The SSB of the ahli islamic is comprised of three members.

Corporate Governance Report-2020 *(continued)*

Profile of SSB Members:

Dr. Mohammed Taher Al-Ibrahim, Chairman

Dr. Mohammed Taher is a leading scholar in the field of Islamic finance. He has held several senior positions in academics and judiciary such as Assistant Professor at Sultan Qaboos University (SQU) and judge and lawyer at the High Court Oman. He holds a doctorate degree in Constitutional Jurisprudence from Edinburgh University, U.K. and has extensive research and teaching experience in Islamic law and its application.

Dr. Mustaien Ali Abdulhamid, Deputy Chairman

Dr. Mustaien worked as Sharia supervisor at AlRajhi Bank and as Sharia senior adviser at Bank Albilad, Riyadh, Kingdom of Saudi Arabia, a position held continuously for approximately 20 years between summer 1995 and late spring 2016. He holds a PhD in Islamic Economics from Um ul Qura University in Markka, Kingdom of Saudi Arabia. In the course of his respective duties in several Islamic financial institutions in the region, a key part of his job is to ensure compliance with Sharia requirements. In this regard, he is well-known for his quite

detailed knowledge and understanding of Islamic banking. He has been instrumental in clarifying various Islamic-based decisions handled down by the bank's Sharia scholars in a number of professional institutions and consultancy firms in Saudi Arabia and Sudan and contributed and supervised various Sharia auditing programs.

Dr. Abdulraouf Abdullah Hamood Al-Tobi, Member

Dr. Abdulraouf has a PhD in Law from International Islamic University Malaysia, Master of Law – LLM in Law from UK and Bachelor Degree in Sharia Judicial Science. He is highly knowledgeable and an

experienced professional of Legal and Islamic banking practices.

Composition of SSB and Details of Meetings and Attendance Records of Members During the Year 2020:

Composition of the Sharia Supervisory Board		Meeting Dates			
Member Name	Position	15-April-20	14-Jul-20	20-Oct-20	14-Dec-20
Dr. Mohammed Taher Al-Ibrahim	Chairman	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhamid	Deputy Chairman	Yes	Yes	Yes	Yes
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	Yes	Yes	Yes	Yes
Dr. Ahmed Mohiyeldin Ahmed *	Chairman	Yes	N/A	N/A	N/A
Attendance		4	3	3	3

* Demise of Sheikh Dr. Ahmed Mohiyeldin

SSB Remuneration and Sitting Fee Expenses:

The shareholders of the Bank in the AGM held on 3 June 2020 have approved the remuneration and sitting fee of the SSB as below:

Designation	Amount
Chairman of SSB	RO 9,625 per annum
Member of SSB	RO 6,738 per annum
Sitting Fees Per Meeting (maximum of five sitting per year per member)	RO 385 per meeting

The table below shows the remuneration and sitting fee expenses of the SSB:

Member Name	Position	Remuneration	Sitting Fee
Dr. Mohammed Taher Al-Ibrahim	Chairman	7,302	1,540
Dr. Mustaien Ali Abdulhamid	Deputy Chairman	6,738	1,540
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	6,738	1,540
Dr. Ahmed Mohiyeldin Ahmed *	Chairman	6,417	770
Total		27,195	5,390

* Deceased

Corporate Governance Report-2020 (continued)

EXECUTIVE MANAGEMENT COMMITTEE MEMBERS OF AHLIBANK

Said Abdullah Al Hatmi,

Chief Executive Officer

Holds a Bachelors Degree in Finance and a Masters Degree in Business Administration. He is a Certified Management Accountant from the Institute of Management Accountant, USA and has completed the Oxford Advanced Management and Leadership Program, Executive Management Programs from Harvard Business School and University of Virginia. Deputy Chairman, OQ SAOC; Board Member & Treasurer, Oman Bank Association; Member of the Advisory Board, College of Economic and Political Studies at SQU. He has over 20 years of diverse commercial banking experience in the areas of corporate banking, retail banking, risk management, finance and banking operations. He has previously held various senior positions at HSBC Bank Middle East, Oman.

Abdullah Salim Saud Salim Al Jabri,

DCEO – Support Services

Has over 24 years of banking experience in conventional and Islamic Banking with ahlibank. Started his career with National Training Institute and then joined Alliance Housing Bank in 1997, where he held various positions that include Manager Retail Banking and Head of Central Operations. He led the operations team in the centralization of operations after its conversion to a full-fledged commercial bank. With the start of Islamic Banking in Oman in 2013, he became General Manager of ahli islamic (erstwhile Al Hilal Islamic Banking Services) and contributed to the success of Islamic Banking. He is a certified Islamic Banker from General Council for Islamic Banks and Financial Institution, Bahrain. He holds a National Diploma in Engineering from Business & Technology Education Council, UK, a Leadership and Management certificate from the Darden School of Business, University of Virginia, USA, and an advanced Leadership and management certificate from the University of Cambridge Judge Business School, UK.

Bilal Anwar,

DCEO – Wholesale Banking

Holds a Bachelor of Commerce degree from the University of Allahabad, India; Certified Associate of Indian Institute of Bankers (CAIIB) from Indian Institute of Bankers, Mumbai, India; Chartered Financial Analyst (CFA- ICFAI) from Institute of Chartered Financial Analyst of India; Post-graduate Diploma in Business Administration from ICFAI Business School, Hyderabad, India. Has more than 19 years of experience in banking with various banks

such as Ahli United Bank BSC, Bahrain, IDBI Bank Limited, Mumbai, India, and Abu Dhabi Commercial Bank, Mumbai, India.

Hanaa Mohammed Al Kharusi,

General Manager – Corporate Banking

Holds a Bachelor's degree in Science from Indiana University, USA and has attended Executive Programs at the London Business School, UK and IMD, Switzerland as well as Said Business School, Oxford, UK. A Graduate member of the National CEO Program (NCP) sponsored by the Diwan of Royal Court. Chairperson; Al Hilal MENA Fund, Director and Chairperson of the Board Audit Committee; Nama Holding (SAOC). Has over 20 years of banking experience in leading Omani banks and has successfully led high-performing teams in corporate banking, corporate e-channels and liabilities, successfully leading major strategic financial transactions and advisory projects in Oman bilaterally and on a syndicated basis. Hanaa is the chairperson of the Recruitment Committee responsible for recruiting, developing and grooming high-potential graduates for future leading positions within ahlibank.

Ghada Abdul Latif Al Balushi,

General Manager – Chief Risk Officer

Holds a Masters degree in Business Administration from the University of Hull; UK, a Bachelor of Science degree in Economics from Sultan Qaboos University and has completed the Cambridge's flagship "Advanced Leadership Program". Has more than 20 years of banking experience in the areas of corporate banking and risk management in leading Omani banks. He has previously worked in several banks in various senior positions such as National Bank of Oman and Oman Development Bank. He was recently awarded the Al Mara'a Excellence Award for "Leadership and Innovation in Risk Management" for the year 2020.

NON-COMPLIANCE

There has not been any instances of non-compliance of legal requirements nor any penalties or strictures imposed by the regulators on any matters relating to the Capital Market Authority over the last three years.

The Bank has incurred penalties of RO 64,000 by Central Bank of Oman over the last three years based on CBO examination report observations.

2020: RO 40,000 - Related to some provisions of the Law on Combatting Money Laundering and Terrorism Financing

2019: RO 20,000 - Related to some provisions of the Law on Combatting Money Laundering and Terrorism Financing

2018: RO 4,000 - Related to Islamic financing facilities allowed for customers.

REMUNERATION MATTERS

An amount of RO 147,800 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for 2020. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al-Hinai	8,200
Anwar Hilal Hamdoon Al Jabri	6,400
Sanjeev Bajjal	4,700
Keith Henry Gale	8,000
Abdul Hameed Ahmed Mohamed Al Bulushi	7,200
Rajeev Gogia	4,900
Ibrahim Said Badar Al Eisri	5,300
Juma Rashid Saif Al Jahwari *	2,500
Salim Ali Hamed Al Hasni *	3,100
Mustafa Shafqat Anwar **	1,900
Total	52,200

* Elected as a Board Member on 3 June 2020.

** Completed his term of office on 3 June 2020.

The total remuneration paid to the top executives (top five) of the Bank amounted to RO 1,146,072 during the year 2020, which included salary, benefits, perquisites, bonuses and gratuities.

Incentives and bonuses are based on key performance indicators towards the achievements of the Bank's long-term strategic objectives.

The duration of the standard service contract for expatriate executives is two years. The notice period for executives ranges from one to three months, depending on the executive's contract.

No severance fees are payable to the top executive officers other than compensation for short notice of termination of services.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

ahlibank SAOG publishes quarterly accounts, which are uploaded on the Muscat Securities Market (MSM) website. The latest news and information about the Bank is also available on its website, www.ahlibank.om.

All annual reports include a comprehensive management report. The Management makes regular presentations to analysts, the press and investors. These briefings outline the Bank's performance, and strategy on future prospects.

Corporate Governance Report-2020 (continued)

The Management discussion and analysis report is part of the Annual Report.

MARKET PRICE DATA:

High / Low Share Prices in 2020

The table below shows the high / low prices of the Bank's shares in Rial Omani in 2020.

Month	High	Low
Jan-20	0.145	0.130
Feb-20	0.150	0.140
Mar-20	0.150	0.136
Apr-20	0.131	0.125
May-20	0.127	0.115
Jun-20	0.126	0.118
Jul-20	0.130	0.116
Aug-20	0.140	0.126
Sep-20	0.140	0.130
Oct-20	0.140	0.129
Nov-20	0.131	0.127
Dec-20	0.134	0.125

DONATIONS AND CHARITY

The Bank paid a donation/charity of RO 1,010,000. It donated RO 1 million to support the Sultanate's efforts to deal with the COVID-19 pandemic.

In addition, ahli islamic paid RO 11,000 to various charitable organizations, which included RO 4,000 from the Charity Fund.

EXTERNAL AUDITOR'S PROFILE – PwC

PwC is a global network of firms operating in 155 countries with more than 284,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

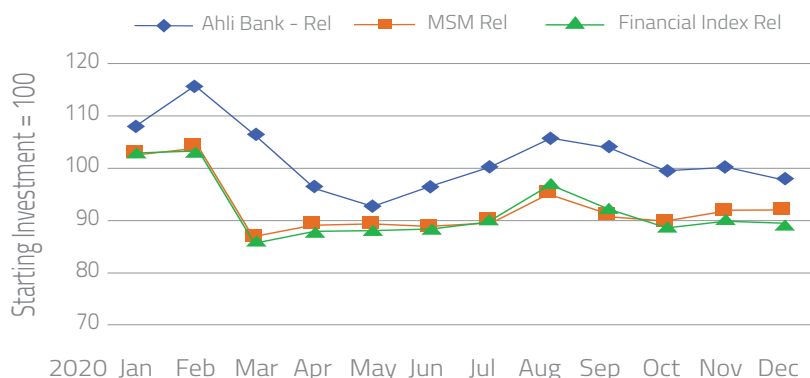
Established in the Middle East for over 40 years, it has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with about 5,600 people. (www.pwc.com/me).

PwC is strongly committed to Oman, where it is recognized as one of the leading providers of quality business advisory services. It has had a local practice in Oman since 1971 and now has eight partners, one of whom is Omani, and seven directors, one of whom is Omani, and approximately 176 other members of staff operating from its office in the Sultanate.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a

Performance of ahlibank SAOG Vs MSM and Banking Indices

Relative Performance of ahlibank Vs. Indices



The Bank has outstanding Tier1 perpetual subordinated bonds as follows:

Issue Date	RO	First Recall Option
11 October 2017	50 million	11 October 2022
17 December 2018	54 million	17 December 2023
13 June 2019	20 million	13 June 2024

* These bonds are listed in the Muscat Securities Market (MSM).

Distribution of Share Ownership Among Shareholders as of 31 December 2020:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	577,380,102	35.00%
Oman Investment Authority	Oman	213,251,128	12.93%
Southern Orbit Investments LLC	Oman	163,183,750	9.89%
Civil Service Employees - Pension Fund	Oman	142,717,963	8.65%
Ubhar Capital SAOC - Asset Management	Oman	140,787,812	8.53%
Ministry of Defense - Pension Fund	Oman	95,436,060	5.79%
Others		316,900,651	19.21%
Total		1,649,657,466	100.00%

separate legal entity. (Please see www.pwc.com/structure for more details.)

PwC billed an amount of RO 71,500 towards professional services rendered to the Bank for the year 2020 (RO 70,000 for audit and RO 1,500 for tax and other services)

Other Important Matters:

As required by the Code of Corporate Governance, the Shareholders has appointed an independent third party for appraising the performance of the Board of Directors for the financial year 2020.

ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS:

- The Board is responsible for the preparation of the financial statements in accordance with the applicable standards and rules.
- The Board has reviewed the efficiency and adequacy of internal control systems of the issuer and it complies with internal rules and regulations.
- There is no material thing that affects the continuation of the Bank and its ability to continue its operations during the next financial year.

Hamdan Ali Nasser Al Hinai
Chairman
Board of Directors

Juma Rashid Saif Al Jahwari
Chairman
Audit and Compliance Committee



BASEL II PILLAR III AND BASEL III Report

31 December 2020



Report of factual findings to the Board of Directors of Ahli Bank SAOG in respect of Basel II - Pillar III and Basel III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Ahli Bank SAOG (the Bank) set out on pages 1 to 38 as at and for the year ended 31 December 2020. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007, Circular No. BM 1114 dated 17 November 2013, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020.

We report our findings as follows:

- Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Bank.

9 March 2021
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos, P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865, Tax Card No 8055889

BASEL II PILLAR III AND BASEL III Report

31 December 2020

1. INTRODUCTION

This report represents the Basel II Pillar III and Basel III qualitative and quantitative disclosures, highlighting the capital adequacy, risk profile and control process of ahlibank SAOG ("the Bank") as per the requirements of CBO. The disclosures are intended to complement the Pillar I, minimum capital requirements and Pillar II, supervisory review process of the framework. They should be read in conjunction with the financial statements as of 31st December 2020.

The Bank has a formal "Disclosure Policy" for disclosure of information that it makes available to the general public as well as to the regulatory bodies. This policy is framed to enhance transparency about its activities and promote good governance. The Bank makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

Outbreak of Coronavirus (Covid-19)

The World Health Organization officially declared Covid-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the bank have witnessed rapid changes because of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries and sectors.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc., (refer CBO circular no. BSD/CB/2020/001 for details). The related further details are provided in note 37 on the financial statements with regard to impact of Covid19 and various measures taken by the Bank on it.

2. SCOPE

The Bank prepares this report in accordance with the Basel Accord in conjunction with and as per the directive of the Central Bank of Oman (CBO).

The Scope of application covers the Bank only and is not part of any group either as a member or as top corporate entity in the group.

3. CAPITAL STRUCTURE

The capital base for complying with regulatory purposes differs from accounting capital. The Bank's regulatory capital is classified into two categories- Tier I and Tier II capital.

Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes paid up capital, legal reserves and retained earnings reduced by cumulative unrealized losses on FVOCI investments and any other applicable deduction specified in the Basel III Capital Accord. AT1 capital consists of perpetual capital instruments.

Tier II capital consists of revaluation reserves/cumulative fair value gain or losses on fair value through other comprehensive income (FVOCI) instruments, Stage 1 and Stage 2 expected credit loss allowance as allowed by CBO and subordinated debt.

There is no innovative or complex capital instrument in the capital structure of the Bank.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

CAPITAL MANAGEMENT

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The Bank has following credit ratings at present:

Capital Intelligence		Fitch	
Foreign currency Long Term Rating:	BB+	Viability rating;	b+
Foreign currency Short term;	B	Long term foreign currency and local currency IDRs;	B+
Outlook:	Negative	Short term foreign currency and local currency IDRs; B	B
		Support rating; 4 Outlook;	Negative

The process of assessing the capital requirements of the Bank commences with the compilation of the annual business plan by individual business units, which are then consolidated into the annual budget plan of the Bank. The annual budget plan provides an estimate of the overall growth in assets, its impact on capital and targeted profitability.

Strategic business objectives and future capital needs are assessed within this framework. Normally, the Bank employs capital rationing techniques to allocate capital for each of the Bank's business risk departments in order to optimize returns.

Sources of future capital are identified and plans put in place to raise and retain capital, under the terms of the framework. The Bank also manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital to shareholders or issue capital securities.

The Bank's Finance department monitors and reports the planned versus actual position, to ensure that the Bank is always adequately capitalized. Risk weighted assets and capital are monitored by the Risk Management department also periodically to assess the quantum of capital available to support assets growth and optimally deploy capital to achieve targeted returns.

The Bank's capital structure as at 31 December 2020, based on the CBO guidelines is as follows:

Sl.No	Elements of Capital	Amount(RO'000)
	Tier I Capital	
1	Share capital*	164,966
2	Legal reserves	34,028
3	Subordinated debt reserve	11,400
4	Retained earnings*	37,149
	Common Equity Tier I before deductions	247,543
	Deductions:	
5	Cumulative unrealized losses and intangibles recognized directly in equity	(8,499)
	Common Equity Tier 1	239,044
	Additional Tier I Capital	
	Tier 1 perpetual subordinated bonds	124,000
	Tier I capital after all deductions	363,044
	Tier II Capital	
7	Revaluation reserves / cumulative fair value gains on FVOCI Instruments	2,719
8	Stage 1 & Stage 2 expected credit losses	19,129
9	Subordinated debt	600
	Total Tier II Capital	22,448
	Total Regulatory Capital	385,492

* The Board of Directors has proposed a cash dividend of 5%, which has been adjusted and is subject to CBO approval and shareholder approval in the AGM.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

CAPITAL ADEQUACY

Qualitative disclosures

The Bank's capital management framework sets out to define, measure, raise and deploy capital in a co-ordinated and consistent manner. Its objective is to maximize its return on capital and, at the same time, provide an adequate cushion to cover any unexpected losses. The Bank manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The capital management process of Islamic window is aligned with the strategic planning process of the Bank. Capital planning is carried out in conjunction with the strategic business and financial planning exercise. Bank maintains a five year rolling strategic plan which is updated and reviewed by the Board of Directors on an annual basis. Capital requirements are assessed based on projected business plans and budget. The Bank uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the consolidated eligible capital.

The Bank's total capital adequacy ratio is 15.67% as against the CBO's prescribed minimum requirement of 12.25% (Including capital conversion buffer of 1.25%) as at 31 December 2020. The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational and market risks. In order to calculate the capital adequacy ratio, the Bank follows the standardized approach forming part of the Pillar 1 requirements of Basel II Norms and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures. In order to equip the requirements of the advanced approaches, the Bank has already implemented obligor rating models and the ratings are being tracked regularly.

In order to meet with Pillar 2 requirements of Basel II Norms, the Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing the Bank's capital adequacy in relation to various risks such as interest rate risk, liquidity risk, concentration risk etc., as well as a strategy for maintaining the capital adequacy level. Based on the guidelines issued by Central Bank of Oman, assessment under ICAAP has been completed for the years from 2020-2023 and it has been determined that the Bank is adequately capitalized to undertake its planned business activities.

ICAAP process is divided into a base case and stressed scenarios. The Bank has assumed three different kinds of stress scenarios, namely Mild, Medium and Severe. These stress scenarios differ in terms of stress event impact level (Mild being the lowest and Severe being the highest).

The following stress scenarios are applied:

- Rise in NPL by % of direct credit facilities
- Portion of SME sector performing loans become NPLs
- Decline in prices of the Bank's portfolio of investments
- Appreciation / depreciation of local currency against all other currencies
- Withdrawal of customer deposits
- Decline in liquid assets
- Shift in LIBOR yield curve
- Increase in cost of funding due to reputational risk
- Branch generated less than expected profitability
- Consolidated impact of different scenarios

In addition to the above, the Bank has also identified additional stress scenarios to include testing of expected credit losses under IFRS 9.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

Quantitative disclosures

i) Position of various risk weighted assets is presented as under (RO '000):

As on 31 December 2020

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	2,754,589	2,636,434	2,183,071
2	Off-balance sheet items	88,432	88,432	84,293
3	Derivatives	5,696	5,696	2,950
4	Market risk	-	-	72,689
5	Operational Risk	-	-	117,449
	Total			2,460,452
6	Tier 1 capital			363,044
7	Tier 2 capital			22,448
8	Total Regulatory Capital			385,492
8.1	Capital requirement for credit risk			278,114
8.2	Capital requirement for market risk			8,904
8.3	Capital requirement for operational risk			14,387
	Total required capital			301,405
9	CET 1 ratio			9.72%
10	Tier 1 ratio			14.76%
11	Total capital ratio			15.67%

ii) Capital adequacy

As on 31 December 2020

Sl. No	Details	Simple Approach
1	Tier I capital (after supervisory deductions)	364,544
2	Tier II capital (after supervisory deductions and up to eligible limits)	22,448
3	Risk weighted assets – banking book	2,270,314
4	Risk weighted assets – operational risk	117,449
5	Total Risk Weighted Assets – Banking Book + Operational Risk	2,387,763
6	Minimum required capital to support RWAs of banking book and operational risk	292,501
	i) Minimum required Tier I capital for banking book and operational risk	244,746
	ii) Tier II capital required for banking book and operational risk	47,755
7	Tier I capital available for supporting trading book	92,991
8	Tier II capital available for supporting trading book	-
9	Risk Weighted Assets – trading book	72,689
10	Total capital required to support trading book	8,904
11	Minimum Tier I capital required for supporting trading book	2,538
12	Total Regulatory Capital	385,492
13	Total Risk Weighted Assets – Whole bank	2,460,452
14	BIS Capital Adequacy Ratio	15.67%

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a “prudential filter” approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024.

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 mentioned above. The impact of above filter on the bank’s regulatory capital is 10 bps. Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

4. RISK EXPOSURE AND ASSESSMENT

Risk Management Principles

Risk is an inherent part of the Bank’s business activities. The primary goal of risk management is to ensure that the Bank’s asset and liability profile, its trading positions and its credit and operational activities do not expose it to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, relative to the Bank’s capital and financial positions. The Bank has already in place a risk appetite statement set by the Board.

The Bank manages the risks effectively and efficiently by making risk management an integral part of commercial banking business. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading the Bank to identifying the various associated risks.

Having identified the risks, the Risk Management Department formulate policies and procedures taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

Primary responsibility for the management of risk lies with the business and operational areas responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank’s risk management department reports directly to the Executive Risk Committee (a Board Committee).

The Bank’s Risk Management includes the following four elements:



Risk framework

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

4. RISK EXPOSURE AND ASSESSMENT *(Continued)*

The following Board and Management committees manage and control material risks to the Bank:

Board Committees:

- ▶ Audit & Compliance Committee
- ▶ Executive & Credit Committee
- ▶ Executive Risk Committee
- ▶ Nomination & Remuneration Committee
- ▶ Head Office Project Committee

Management Committees:

- ▶ Credit & Investment Committee
- ▶ Assets & Liabilities Committee
- ▶ Credit Risk Management Committee
- ▶ Operational Risk Committee
- ▶ IT Steering Committee
- ▶ New Product Committee
- ▶ Special Assets Committee

The Bank's risk management is based on a 'Three Lines of Defense' model and is also supported by the fourth line of defense, to shield the Bank against risks that might threaten the achievement of its goals. This structure allows for a coordination of control responsibilities in an effective and efficient manner. To reach this objective, roles and responsibilities are clearly communicated to all the functions so that everyone understand his/her role and how it relates to the activities of other functions. Roles and responsibilities are communicated to the employees through policies and procedures and also through job descriptions. The following line of defenses are explained below:

First line of Defense

The business operations side which is the first line of defense is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes. The departments included in this line of defense are:

- Corporate Banking
- SME & Retail Banking
- Islamic Banking
- Treasury
- Information Technology
- Operations

Second Line of Defense

The Risk, Compliance, Finance and Legal Departments falls under the second line of defense. Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting the Bank. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected.

The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the Bank, and supervise how they are applied. Compliance is an independent function that aims to prevent the Bank from being exposed to compliance risk or suffering harm through non-compliance with the prevailing laws, regulations or internal rules. It pays particular attention in this regard to compliance with the Integrity Policy.

Third Line of Defense

As the independent third-line of control, Internal Audit Department is responsible for the quality control of the existing business processes. It performs risk-based and general audits to ensure that the internal control and risk management system, including Risk Policy, are effective and efficient, and to ensure that policy measures and processes are in place and consistently applied within the Bank to guarantee the continuity of operations.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

4. RISK EXPOSURE AND ASSESSMENT *(Continued)*

Fourth Line of Defense

Finally, there are additional external levels of controls that compliment three existing internal layers of control such as assurances from external independent bodies. External auditors are the common bodies under this line of defense. External auditors may not have the existing familiarity of the Bank that an internal audit department has, they can bring a new and valuable perspective. Accordingly they are important in the Bank's overall governance and control structure even though they are outsiders of the Bank.

Policies and Procedures:

The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

- | | |
|---|---|
| 1. Anti-Money Laundering Manual | 23. Fraud Risk Management Policy |
| 2. Personal Account Dealing Policy | 24. Fraud Risk Management Framework |
| 3. New Product Policy and Procedures | 25. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 26. Market Risk Policy |
| 5. Compliance Policy | 27. Risk Management-Approach & Framework |
| 6. Corporate Communication and Marketing policy | 28. Social and Environment Management System Policy |
| 7. Corporate Governance Policy | 29. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 30. Asset Management Policy |
| 9. Dividend Policy | 31. Brokerage Policy |
| 10. Expenses Policy | 32. FATCA Policy |
| 11. Capital Management Policy | 33. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 34. Profit Distribution Policy |
| 13. Board Remuneration Policy | 35. Charity Policy |
| 14. Financial Institutions Policy | 36. Zakah Policy |
| 15. Human Resources Policy | 37. Cost Sharing Policy |
| 16. Outsourcing Policy | 38. Segregation of Funds Policy |
| 17. Code of Business Conduct | 39. Social Media Policy |
| 18. Information Security Management Policy | 40. Shari'a Governance Manual |
| 19. Business Continuity Management Policy | 41. Electronic Banking Policy |
| 20. Credit and Investment Policy | 42. Classification and Measurement Financial Assets and Liabilities |
| 21. Operational Risk Management Framework | 43. Sanctions Policy |
| 22. Operational Risk Management Policy | |

All policies are subject to periodical reviews. Any change in law or regulation is deemed to be automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

The bank has exposure to the following risks:

5. CREDIT RISK

Qualitative Disclosure

Credit risk arises from the potential financial loss resulting from customers/counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Bank evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Bank, and proactive management is critical to the Bank's long-term success.

The Bank has a comprehensive due diligence system for approving credit facilities, and well defined policies on controlling credit risk at the counter-party, group, economic sector and country levels.

All corporate, bank and sovereign credit requires independent credit risk review to be approved by authorities, from Level II to the Board, depending on their delegated Credit Approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the CBO. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

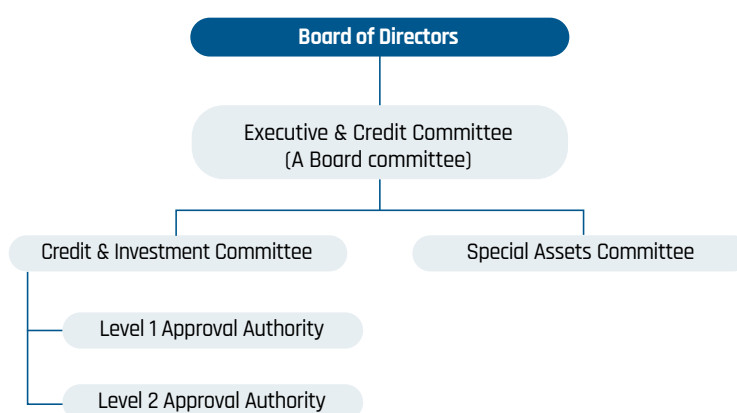
Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensuring the allocation of capital for the total credit risk to be assumed by the Bank; and measuring the actual use of capital at portfolio level.

With regard to credit culture, Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards through a diligent Credit Review function and post approval review of loans through a Loan Review Mechanism (LRM) function and the periodic review and updating of credit policies, guidelines and procedures.

The Bank also has a robust system of borrowers' risk ratings that assesses the risk of corporate borrowers and monitors ratings changes periodically. In case of financial institutions, ratings by credit rating agencies are considered.

Structure and policies of credit risk management

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the Board of Directors. The following is the structure of credit risk approval:-



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks / FIs or Sovereigns and also lending related to the Bank's brokerage activities, the legal nature of the borrowers and their credit risk rating.

In regards to transaction risk, Risk Management ensures that credit is underwritten according to approved standards and that all risks are highlighted in the credit risk review, including policy exceptions. It includes analyzing and reporting on the nature of on-and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities. To safeguard against concentration risk, sectoral limits have been set for ensuring that the Islamic window is having a well-diversified portfolio, the same is being reviewed by the Bank on a regular basis.

The Credit Risk Management Committee (CRMC) oversees, adherence to the limits, exceptions and makes recommendations to the Board in respect of policy related matters pertaining to credit risk management.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

Past due credit exposures and Impairment policy

As a matter of policy, the Bank creates allowance for impairment of financing contracts promptly and in a consistent manner. The Bank has adopted IFRS 9 "Financial Instruments" accounting standard in 2018 based on which impairment is assessed on a forward looking expected credit loss (ECL) basis, as required by CBO.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

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

Stage 1:

When Loans and advances & financing are first recognized, the Bank recognizes an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from stage 2.

Stage 2:

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

Stage 3:

Loans and advances & financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs.

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.
- in case of Treasury and interbank balances, when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Quantitative Disclosure:

i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)

Sl. No.	Type of credit exposure	Average gross exposure		Total gross exposure	
		31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
1	Overdrafts	75,423	72,957	74,369	76,477
2	Personal loans	738,865	699,668	749,488	728,241
3	Loans and against trust receipts	63,724	62,151	66,807	60,641
4	Other loans	1,288,824	1,141,437	1,365,948	1,211,698
5	Bills purchased/ discounted	20,172	24,593	20,885	19,458
	Total	2,187,008	2,000,806	2,277,497	2,096,515

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

ii) Geographic distribution of exposures by major type of credit exposure: (RO '000)

SI No.	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Others	Total
1	Overdrafts	74,369	-	-	-	-	74,369
2	Personal loans	749,488	-	-	-	-	749,488
3	Loans against trust receipts	66,807	-	-	-	-	66,807
4	Other loans	1,349,181	848	15,082	441	396	1,365,948
5	Bills Purchased/discounted	20,885	-	-	-	-	20,885
6	Any	-	-	-	-	-	-
	Total	2,260,730	848	15,082	441	396	2,277,497

iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure: (RO '000)

SI No.	Economic sector	Overdrafts	Loans	Bills purchased/ discounts	Others	Total	Off Balance Sheet Exposure
1	Wholesale and retail trade	9,179	135,698	3,610	84,412	232,899	50,903
2	Mining and quarrying	1,523	101,342	1,095	-	103,960	201
3	Construction	30,049	463,616	12,246	-	505,911	113,706
4	Manufacturing	11,921	111,883	2,235	-	126,039	14,921
5	Transport and communication	953	76,346	-	-	77,299	1,974
6	Electricity, gas and water	5,472	98,723	-	-	104,195	-
7	Financial institutions	198	161,212	72	-	161,482	3,693
8	Services	9,102	173,626	1,375	-	184,103	5,325
9	Personal loans	1,280	748,208	-	-	749,488	150
10	Non- resident lending	-	16,768	-	-	16,768	-
11	All	4,692	10,409	252	-	15,353	-
	Total	74,369	2,097,831	20,885	84,412	2,277,497	190,873

iv) Residual contractual maturity of the whole portfolio, broken down by major types of credit exposure: (RO'000)

SI No	Time Band	Overdraft	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Upto 1Month	3,718	146,205	9,071	-	158,994	98,078
2	1-3 Months	3,718	202,342	9,381	-	215,441	39,309
3	3-6 Months	3,718	109,835	2,433	-	115,986	35,147
4	6-9 Months	3,718	41,308	-	-	45,026	-
5	9-12 Months	3,718	46,890	-	-	50,608	9,713
6	1-3 Years	18,593	249,236	-	-	267,829	8,626
7	3-5 Years	18,593	205,496	-	-	224,089	-
8	Over5 Years	18,593	1,180,931	-	-	1,199,524	-
	Total	74,369	2,182,243	20,885	-	2,277,497	190,873

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2020

5. CREDIT RISK (Continued)

v) Major industry or counterparty type: (RO'000)

The Bank has set aside an additional amount of RO 0.998 million as a non-distributable special reserve on restructured loans based on CBO circular as at 31 December 2020.

SI No	Economic sector	Gross loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance^	Stage 3 allowance *	Impairment allowance made during the year	Advances written off, net during the year
1	Wholesale & retail trade	232,900	15,036	1,979	13,809	14,176	-
2	Mining & quarrying	103,960	16	2,125	9	324	-
3	Construction	505,911	16,661	8,309	1,873	(77)	-
4	Manufacturing	126,039	5,251	1,736	1,423	1,277	-
5	Electricity, gas & water	104,195	-	215	-	79	-
6	Transport & communication	77,299	593	1,315	334	366	-
7	Financial institutions	161,482	-	1,319	-	385	-
8	Services	184,103	951	3,629	531	912	-
9	Personal loans	749,488	20,206	4,563	13,773	2,267	-
10	Non-resident lending	16,768	-	93	-	(2,678)	-
11	All others	15,352	7,688	1,523	42	40	-
	Total	2,277,497	66,402	26,806	31,794	17,071	-

*- Stage 3 allowance includes reserve interest amounting RO 5.268 million.

^- Stage 1&2 includes additional ECL overlays of RO 5.786 million and modification loss of RO 0.073 million

vi) Amount of impaired loans broken down by significant geographical areas including, with the amounts of impairment allowances related to each geographical area: (RO'000)

SI No.	Countries	Gross loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance^	Stage 3 allowance *	Impairment allowance made during the year	Advances written off, net during the year
1	Oman	2,260,730	60,530	26,761	29,097	17,101	-
2	Other GCC countries	848	-	1	-	(314)	-
3	OECD countries	15,082	5,431	39	2,431	268	-
4	India	441	441	-	266	29	-
5	Pakistan	-	-	-	-	-	-
6	Others	396	-	5	-	13	-
	Total	2,277,497	66,402	26,806	31,794	17,071	-

*- Stage 3 allowance includes reserve interest amounting to RO 5.268 million.

^- Stage 1&2 includes additional ECL overlays of RO 5.713 million and modification loss of RO 0.073 million

vii) Movement of gross loans: (RO '000)

SL No.	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	1,684,146	375,931	36,438	2,096,515
2	Mitigation/ changes (+/-)	(69,839)	46,410	23,429	-
3	New loans	1,376,857	709,290	22,271	2,108,418
4	Recovery of loans	(1,221,993)	(689,707)	(15,698)	(1,927,398)
5	Loans written back	-	-	(38)	(38)
6	Closing balance	1,769,171	441,924	66,402	2,277,497
7	Impairment allowance held	8,315	18,491	26,526	53,332
8	Reserve interest	-	-	5,268	5,268

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

Credit risk- Disclosures for portfolios subject to the standardized approach.

As part of the standardized approach, the Bank follows the simplified approach for credit risk capital charge calculation. Accordingly, keeping in view the CBO guidelines, the Bank has used the financial collaterals such as cash, acceptable bank guarantees and shares listed on the MSM main index as part of the credit risk mitigation for arriving at the capital adequacy.

Qualitative Disclosures:

The Bank is following Moody's, S&P and Fitch rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk. As per the guidelines, the ratings corresponding to the two lowest risk weights are considered and the higher of the two risk weights is applied. There has been no change in the approach compared to previous year.

The bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans and SME which are risk weighted at 35% and 75% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, the bank uses the discretion of the simple approach for recognizing collaterals.

Quantitative Disclosures:

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

S. No.	Product / Rating	Capital Charge						Total
		0%	20%	35%	50%	75%	100%	
RO 000's								
Rated								
1	Sovereign	344,033	-	-	-	-	824	344,857
2	Banks	-	19,868	-	27,717	-	9,722	57,307
Unrated								
1	Corporate	-	-	-	-	137,850	1,170,752	1,308,602
2	Banks	-	3,200	-	15,400	-	-	18,600
3	Retail	-	-	-	-	-	447,024	447,024
4	Claims secured by residential property	-	-	53,322	-	-	221,391	274,713
5	Claims secured by commercial property	-	-	-	-	-	239,148	239,148
6	Past due loans	-	-	-	-	-	29,355	29,355
7	Other assets	14,594	-	-	-	-	114,517	129,111
	Total Banking Book	358,627	23,068	53,322	43,117	137,850	2,232,733	2,848,717

Credit Risk Mitigation: Disclosures for standardized approaches

Qualitative disclosure

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on-and off-balance sheet netting (and the extent to which the Bank makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Bank also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the policy is assigned in the Bank's favor. Real estate collateral is valued on regular intervals and also on need basis based on the assessment of risk and economic scenario prevailing.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

The Bank normally accepts the following types of collateral:

- Cash margins and fixed deposits
- Real estate comprising income-producing and non-income-producing assets
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees / standby LC issued by acceptable Banks
- Debt securities subject to meeting approved criteria
- Funds subject to meeting approved criteria

The Bank also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable and has a system of assessment of their creditworthiness.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2020 towards loan and advances not impaired amounted to RO 1,859.559 million.

Quantitative disclosure

As per Basel & CBO guidelines the Bank stands in possession of the following eligible collateral:

1) Cash 2) Shares 3) Sovereign Guarantee.

Exposure covered by cash collateral – RO 3.237 million after application of haircut (0%) exposure stands at RO Nil.

Exposure covered by Shares collateral – RO 116.888 Million; after application of haircut (50%) exposure stands at RO. 58.444 Million.

Exposure covered by Sovereign guarantee RO 22.974 Million; after application of haircut (0%) exposure stands at RO Nil.

Particulars	RO 'Mn
Gross Exposure - banking book	2,849
Credit risk mitigation	(130)
Risk weight impact - for banking book	(448)
Risk weighted assets - banking book	2,270
Capital charge for credit risk	278

Counterparty Credit Risk:

Counterparty Credit Risk (CCR) is the risk that the customer or trading counterparty of the Bank, usually an OTC derivative contract, may fail to fulfill its obligation which may result in replacement or termination of transaction at a loss to the Bank.

Bank has implemented Current Exposure Method (CEM) for the measurement of Risk Weighted Assets under CCR. Exposure under CEM method is defined as sum of Potential Future Exposure (PFE) and Current Credit Exposure (CCE). The PFE is the estimate of amount of exposure that may occur over a one year time horizon while CCE is the sum of positive MTM (Mark to Market) values. Bank has total exposure (CEM) of OMR on account of OTC derivatives (FX forwards, Interest Rate Swaps etc) and RWA of RO 5.696 million as at 31 December 2020.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

6. MARKET RISK

Qualitative disclosure

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Bank. Market risk arises from fluctuations in interest rates, foreign exchange rates, commodity and equity prices. Market risk has been categorized into interest rate risk, equity position risk and foreign exchange risk. The Bank does not take any trading positions in commodities.

The Bank has a robust Market Risk Management framework which comprises of risk identification, setting up of limits, monitoring, reporting, escalation matrix and resolution. The policy and procedure ensures that all limits are within risk appetite of the Bank and approved by the Board.

Details of various market risks are as below:

Interest Rate Risk Principles and Framework

Interest rate risk arises from the possibility that changes in interest rates will affect the value of underlying financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

Interest Rate Risk in Trading Book

Interest rate risk in the trading book is the risk of losses in the market value of underlying financial instruments and arises from the sensitivity of interest bearing instruments to interest rate volatility. Interest rate risk in the trading book is monitored through notional exposure limits, stop loss limits, and maximum maturity limits, and is marked to market.

As of 31 December 2020, there were no trading book position sensitive to interest rate changes.

Equity Position Risk

Equity position risk occurs due to change in market value of the Bank's equity portfolio due to change in general market or security specific conditions. The ALCO monitors all equity investment on periodic basis. The Market Risk and Mid Office is responsible to ensure appropriate risk limits are in place and reports the same to appropriate authorities.

As of 31 December 2020, equity investments classified as FVTPL amount to OMR 0.697 million.

Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Bank may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions. Treasury takes every possible measure to cover open positions created by customer transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, deposits, etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures are centrally managed by the Bank's Treasury and are daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies to monitor and control foreign exchange exposures.

The Bank treats its entire Foreign Exchange Exposure under Basel II Standardized method for capital calculation. The Net open position in all foreign currencies stands at RO 31.765 million (including RO 29.777 million open position is in effectively pegged currencies) as on 31 December 2020.

Quantitative Disclosure:

Capital Charge:

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positions are monitored on daily basis to ensure open currency position is maintained within the regulatory limit. For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date.

In addition, the Bank holds insignificant FVTPL investments. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

6. MARKET RISK *(Continued)*

Table showing capital charge for interest rate, equity and FX risk as on 31 December 2020 is shown below:

Type of risk	2020	2019
Interest rate risk	-	-
Equity position risk	111	81
Foreign exchange risk	5,704	5,420
Percentage of NOP to regulatory capital	8.04%	20.16%
Regulatory ceiling (% to total networth)	40%	40%

Total risk weighted assets for trading book is RO 72.689 million with capital charge of RO 8.904 million.

Investments in the banking book

The Bank's investments will have to be within the overall limits and restrictions as CBO may prescribe from time to time.

However, the Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors based on the product category like Repo, CBO CD or Equity/Bonds, as a percentage of the Capital Base of the Bank. All investment proposals are routed through the ALCO to the relevant approval authority.

In addition to the CBO restrictions on investments by banks and such internal limits as described above, the following restrictions will apply:

The Bank's appetite for private subscriptions and unlisted/unquoted equity is low and any such proposals should be adequately justified on a case by case basis and has to be approved at least by the Executive & Credit Committee and by the Board if it exceeds limits structured as a proportion of the Bank's capital base.

All investments of the Bank should be in either USD or USD pegged GCC currencies or any investments in other currencies should be approved at least by the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base, after review and recommendation of the ALCO. Aggregate investments in all such currencies should not exceed a limit based on the Bank's capital base unless approved by the Board of Directors. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

Any investments of the Bank outside the GCC countries or US will have to be specifically approved by at least the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

The Bank will try to achieve reasonable diversification of its equity investment portfolio among the economic sectors, and will not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

- a. Trading and retailing
- b. Real estate development, management and rental income
- c. Construction / contracting and building materials
- d. Travel / tourism, hotels, restaurants, entertainment, health services and education
- e. Warehousing / storage, logistics, supply management and transportation, utilities and telecom
- f. Oil and gas
- g. Banking and financial services
- h. Conglomerates or holding companies investing in any of the above business lines

This should include all proprietary investments made through the Bank's Asset Management Department.

Any proposal that leads to contravention of the above or any proposal for investment in any sector or industry not listed above will need approval of the Executive Credit Committee.

All investment approval requests for specific transactions or trading limits must be made by the relevant Business Line, approved by the Credit and Investment Committee and submitted to the Executive & Credit Committee as delegated. Any approval above those delegated limits is to be elevated to the Board level for approval. Any restrictions on investments as per effective CBO regulations shall apply. The details of investments are provided in Note 9 of the financial statements.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

6. MARKET RISK *(Continued)*

Investment exits/ Stop loss (does not cover Asset Management Division operations)

Exit strategies is clearly outlined in all investment proposals. In case of a change in the exit strategy, approval from the same approving body is obtained. Sale of FVOCI investments to book profit is approved/ ratified by the ALCO.

The tolerance level of a decrease in the value of an FVTPL investment is a maximum of 15% (in a particular financial year). Investments exceeding this threshold are exited. Any holding with loss equivalent or greater than 10% (in a particular financial year) are notified to ALCO members. In case an investment is witnessing a material change (downgrading or expected downgrade, etc.), the Business Unit outlines the action/remedial plan for ALCO's review. Based on its review, ALCO decides the most appropriate strategy and notify the Credit and Investment Committee.

Interest Rate Risk in Banking Book (IRRBB)

The Bank monitors its interest rate risk in the banking book through performing repricing gap analysis of interest rate sensitive assets and liabilities. Under repricing gap analysis, the Bank distributes interest rate sensitive assets and liabilities into time bands according to their maturity (if fixed rate) or time remaining to their next repricing (if floating rate). The size of the gap for a given time period – that is assets minus liabilities that reprice or mature within that time band – gives an indication of the Bank's repricing risk exposure. The Bank evaluates the effect of a parallel shift in yield curve on its economic value by applying a proxy for modified duration multiplied by the assumed parallel change in interest rates to the gap under each time band.

The nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement, are given below.

Interest rate risk is mainly related to retail banking book as they are re-priced with any change in the CBO's interest rate and for corporate customer re-priced in line with the market conditions.

Deposits are re-priced based on their final maturity, or if linked to a floating rate index, on the re-pricing date. Deposits that are insensitive to interest rate movements are categorized separately. The earnings at risk are calculated based on interest rate re-pricing gaps. The Bank is confident of sourcing the cheaper source of funds by way of customers' deposits. ALCO along with the risk management department identifies interest rate risk and these are monitored and reported periodically. Rate sensitive exposures are quantified using re-pricing gaps.

Quantitative Disclosure:

Exposure and sensitivity analysis

The sensitivity of interest rate risk is determined by applying 200 bps interest rate shock on net interest income and assessing the impact on capital. The impact of a 200 basis points parallel shift in interest rate is provided below:

	2020	2019
	RO '000	RO '000
Impact of +200 bps interest rate increase	7,768	7,487
Impact of -200 bps interest rate decrease	(7,768)	(7,487)
Impact of +200 bps interest rate increase as % of Capital	+1.97%	+1.98%
Impact of -200 bps interest rate decrease as % of Capital	-1.97%	-1.98%

The bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2020 is highlighted in Note 37.3.2 of the financial statements.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK

Qualitative Disclosure

The Bank defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Bank:

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the CBO directives, the Bank keeps at least 5% of its demand & time deposit liabilities with CBO in the form of clearing balances
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Bank's projected liquidity needs are analyzed and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The Risk Management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management Departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and Funding Policy and a liquidity contingency plan have been established by the Bank.

Liquidity and Funding Policy

The Liquidity and Funding policy of the Bank is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's ALCO reviews the Liquidity Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position. The key ones are:

- ▶ Placing limits on maturity mismatches
- ▶ Maintaining a stock of liquid assets
- ▶ Diversification of liabilities
- ▶ Access to wholesale markets
- ▶ Multi-currency liquidity management

The Bank also maintains significant investments in liquid instruments issued by Government & banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

Stock of Liquid Assets

An adequate stock of high quality liquid assets provides the Bank with the capacity to meet its obligations while any underlying problems affecting liquidity are addressed.

Such assets are clearly identified, their role defined and minimum holding levels are established and agreed by the ALCO. The degree of diversification of the liquid assets portfolio is reviewed by the ALCO on a monthly basis.

As per the guidelines of CBO, the Bank is required to maintain Liquidity Coverage Ratio (LCR) of at least 100%. Further, Net Stable Funding Ratio (NSFR) is also prescribed at a minimum of 100%. Internally, the Bank has implemented a more stringent requirement for these ratios which is reviewed by ALCO on a monthly basis. A detailed disclosure on the position of the Bank in regards to these ratios is contained later in this report.

Diversification of liabilities

The Bank seeks to maintain a diversified funding base, and monitors the degree of diversification in its liability base on a monthly basis. Depositor concentration is reviewed by the ALCO on a monthly basis.

The liquidity policy recognizes the inherent value of the Bank's longer term depositors. The Bank seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK *(Continued)*

The Bank also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The Bank's exposure to such deposits is reviewed by the ALCO on a monthly basis.

Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Bank addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Bank assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

The Treasurer along with the Head of Risk Management derives and documents the Maturity Profile behavioral adjustments, based on redemptions and withdrawal requests. These are communicated to the ALCO for discussion and acceptance.

Liquidity Contingency Plan:

It is imperative for the Bank to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. The Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP will serve as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations at both solo and consolidated level.

The Bank has adopted quantitative and qualitative key warning indicators which is monitored by Market Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking, DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

Quantitative disclosure

The maturity gaps are measured and reported as per CBO circular BM 955 dated May 7, 2003 and subsequent amendments including the CBO circular dated March 20, 2018 on Maturity of Assets and Liabilities. Disclosure pertaining to the maturity profile of assets and liabilities as at 31 December 2020 are provided in note 37.2.2 of financial statements. Following is the position of currency-wise cumulative gaps as % of cumulative liabilities as monitored against CBO prescribed maximum limits:

as of 31 December 2020

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Aggregate	47.7%	29.0%	21.3%	-0.7%	-12.8%
OMR	40.6%	51.6%	37.1%	2.1%	-12.0%
USD	56.2%	-12.7%	-11.6%	-10.6%	-17.0%
Others	142.3%	103.3%	56.8%	52.7%	41.1%

as of 31 December 2019

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Aggregate	33.2%	18.8%	9.6%	-1.3%	-21.3%
OMR	47.0%	32.0%	19.4%	2.1%	-22.9%
USD	16.1%	-0.3%	-8.0%	-10.4%	-22.4%
Others	38.9%	13.7%	11.6%	10.2%	7.7%
CBO prescribed Limits	-15%	-15%	-20%	-25%	-25%

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK

Operational Risk Framework

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks. The Bank has an Operational Risk Management Framework elucidating the processes involved in the operational risk management. There is an Operational Risk Committee that is the owner of this Framework and holds responsibility.

The Bank identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Bank's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes and technological advances.

The Bank has identified the following operational risks and has been implementing an effective framework to manage them:

- Fraud Risk
- Process Risk
- Legal Risk
- People Risk
- Compliance Risk
- IT Risk
- Physical Security Risk

In order to effectively manage the risks arising from frauds, in line with the CBO Circular on Fraud Risk Management, the Bank has introduced separate Fraud Risk Management (FRM) Policy and FRM Process. The FRM unit forms part of the Operational risk management division of Risk Management functions and is independent of other departments.

Control and Mitigation of Operational Risk

The Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Bank has implemented Operation Risk Self-Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Bank also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis.

The Bank ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Bank ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Bank takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Bank's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Reputation Risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Bank's profitability or image. Reputation risk is one of the most complex risks to manage in view of unpredictability, constant change in the operating environment, personnel turnover and multi-cultural environment that the Bank operates in. The Bank identifies, measures, monitors and controls reputation risk arising in the following areas:

- Customer service
- Perception of stakeholders regarding Bank's commitment to their interests
- Quality of products, services and sales practices
- Reporting to stakeholders and external agencies
- Accuracy of information in communications to the public

There are policies and procedures in place to manage and monitor reputation risk.

Social Media risk is an important element of Reputation risk that has emerged with the popularity of social media and digital technologies. The Bank recognizes the importance of effectively managing the interests of the Bank and its customers from this dynamic and unregulated category of risk. The Corporate Communication Department (CCD) is responsible for managing the Bank's social media activities within the guidelines of 'Social Media Policy'.

Business Continuity Risk

The Bank has documented the Business Continuity Management Policy (BCP) which outlines the business continuity process to be followed in a disaster scenario and undertakes comprehensive testing of all its critical systems and processes. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

Business Continuity Test

During the year 2020, the Bank has carried out a comprehensive BCP test and a volume test on a working day in order to test the resilience of the Bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the results of the BCP/ volume tests were submitted to the Board. The Bank has in place a crisis management team and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Fraud Risk Management

The Bank takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavors to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Bank.

Concentration Risk

Concentration risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from large exposure to counterparty, a sector or country. Concentration risk can be mitigated by formulating limits, by a thorough check on counterparty's quality or adequate collateral support etc.

As part of ICAAP, thresholds for exposure concentrations has been set up, this will trigger additional capital requirements based on concentration in terms of large exposures to counterparties, sector exposure concentration (excluding retail lending) and geographical exposure concentration (other than to Oman).

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Information Security Risk

The bank has adopted an Information Security Management System (ISMS) /process and a framework by which the Bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times.

Compliance Risk (including risk of Shari'a Non-Compliance)

Compliance risk is the potential for financial losses, legal penalties, regulatory sanctions and loss to Bank's reputation that result from non-compliance with laws and regulations that are applicable to the Bank. The Board of Directors have direct responsibility for overseeing the management of the Bank's compliance risk. Senior management are thereafter responsible for ensuring effective management of this risk. They are supported by the Compliance function of the Bank which is an independent function that reports and has direct access to Board Audit & Compliance Committee. The Bank's 'Compliance Policy' sets the guidelines to manage this important risk type.

Shari'a Governance framework ensures Shari'a compliance at all times and at all levels. Shari'a compliance unit facilitates the senior management in ensuring compliance with Shari'a and Islamic banking stipulations of the Central Bank in all its business activities, operations and transactions. Shari'a compliance unit is extensively involved before a new product or transaction is approved and monitors the implementation of guidelines issued by Shari'a Supervisory Board (SSB). No new product class or transaction type is executed without consulting the Shari'a compliance unit and getting a formal approval from the SSB.

Model Risk

Model risk is the potential for ineffective decision making or regulatory non-compliance resulting from the use of insufficiently accurate models, particularly in the areas such as measuring, pricing and managing risks. These models include, but are not limited to, capital calculation model, facility and obligor risk rating models, models to calculate expected credit losses and provisioning, pricing models for investments and hedges etc. The Bank manages this risk by following best-practices in regards to governance, data management, model validation and back-testing of its key models.

Other Risks

The Bank is also exposed to other risks such as, strategic risk, business cycle risk, legal risk, residual risk, settlement risk, Shariah non-compliance risk (Pertaining to Islamic Banking) etc. However, currently these risks are not significant to the Bank. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Operational risk capital charge and risk weighted amount

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

Item (RO '000)	2020	2019	2018
Net interest income	60,094	57,039	52,054
Non-interest income	11,402	12,710	10,099
Provision for unpaid interest	2,391	747	970
Gain on sale of investment	12	-	-
Insurance and other irregular items	(2)	(30)	(61)
Gross income	73,897	70,466	63,062
Average Income			69,142
Gross Income times of Alpha (15%)			10,371
Operational risk based on Basic Indicator Approach			129,637

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 9.396 million as of 31 December 2020.

The Risk weighted assets for operational risk as per Basel II is RO 117.449 million with the capital charge of RO 14.387 million.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

9. COMPENSATION POLICY

In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is endeavored to attract, retain and motivate the best people in the industry. The Bank has a Board appointed Nomination and Remuneration Committee whose primary objective is to advise the Bank's Board Chairman on the remuneration of Board members, appointment and remuneration of senior management personnel.

Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. The Objective of Performance Review process is to assess the employee on his/her performance against assigned Key Performance Indicators and Objectives. At senior management levels, the overall Bank's performance is the overriding criteria while awarding performance awards. The payout is based on consideration of all aspects governing performance including the stage of business, market conditions, and time horizon of risks, sustainable returns and the cyclical nature of certain businesses. The Bank is committed to responsible compensation practices which balance reward based on performance and promoting principled behavior and actions. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

The compensation policy and arrangement for Senior Management, Material Risk takers and Control functions in regulated roles of the Bank are based on their responsibilities and authority levels and are governed by the instructions from CBO on the principles and standards of the Financial Stability Board and relevant CMA regulations.

The list of Senior Management and Material Risk Takers in regulated roles of the Bank is reviewed annually by the Board Nomination and Remuneration Committee (NRC) and takes into account changes in terms of internal organization and compensation levels.

The NRC review and approves all fixed and variable compensation including all benefits for the designated Senior Management and Material Risk Takers in regulated roles of the Bank to ensure that payments made are fair to the individual and the Bank, that failure is not rewarded and that the duty to maximize performance and mitigate loss is fully recognized.

In cases whereby the variable compensation for Senior Management and Material Risk Takers exceeds threshold, the balance is being deferred and paid equally over the period of 3 years, subject to certain conditions relating to Malus and Claw-back criterion.

The key management comprises of 5 members (2019: 5 members) of the management committee.

The below table provides details of key management compensation:

	2020	2019
	RO '000	RO '000
Salaries and allowances	1,127	974
End of service benefits	19	30
Total	1,146	1,004

10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2020.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE

The below capital disclosures are prepared in accordance with the requirements of the CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013.

11.1 The 3 step approach to reconciliation

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

BASEL III COMMON DISCLOSURE TEMPLATE

Common Equity Tier 1 capital: instruments and reserves		RO(000's)
1	Directly issued qualifying common share capital () plus related stock surplus/premium	164,966
2	Retained earnings (net of proposed cash dividend of 5%)	37,149
3	Accumulated other comprehensive income (and other reserves)	45,428
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	247,543
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(5,008)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(3,491)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitization gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common equity Tier 1	(8,499)
29	Common Equity Tier 1 capital (CET1)	239,044

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.1 The 3 step approach to reconciliation *(Continued)*

Additional Tier 1 capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	124,000
31	of which: classified as equity under applicable accounting standards	124,000
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	124,000
Additional Tier 1 capital : regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH:	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	124,000
45	Tier 1 capital (T1 = CET1 + AT1)	363,044
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2	600
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions (including gain on investments)	21,848
51	Tier 2 capital before regulatory adjustments	22,448
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	Total National specific regulatory adjustments	-
	Of which: Investments in Tier 2 capital of unconsolidated banking and financial subsidiary companies, associates or affiliates etc.,	-
	Of which: shortfall in the Tier 2 regulatory capital in the unconsolidated entities	-

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.1 The 3 step approach to reconciliation *(Continued)*

57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	22,448
59	Total capital (TC = T1 + T2)	385,492
60	Total risk weighted assets	2,460,452
60a	Credit risk weighted assets	2,270,314
60b	: Market risk weighted assets	72,689
60c	: Operational risk weighted assets	117,449
Capital Ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	9.72%
62	Tier 1 (as a percentage of risk weighted assets)	14.76%
63	Total capital (as a percentage of risk weighted assets)	15.67%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.250%
65	of which: capital conservation buffer requirement	1.250%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.72%
National Minima (if difference from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.250%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.250%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.250%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	771
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	19,129
77	Cap on inclusion of provisions in Tier 2 under standardised approach	20,715
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.1 The 3 step approach to reconciliation *(Continued)*

Step 1: Balance sheet under Regulatory scope of consolidation

Table 2a- Balance sheet under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2020	Published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	79,020	79,020
Certificates of deposit	-	-
Due from banks	46,174	46,174
Loans and advances	2,218,897	2,218,897
Investments in securities	306,368	306,368
Loans and advances to banks	-	-
Property and equipment	22,864	22,864
Deferred tax assets	-	-
Other assets	29,154	29,154
Total assets	2,702,477	2,702,477
Liabilities		
Due to banks	135,244	135,244
Customer deposits	1,924,654	1,924,654
Borrowings	159,775	159,775
Deferred tax liabilities	286	286
Other liabilities	82,168	82,168
Subordinated bonds	12,000	12,000
Total liabilities	2,314,127	2,314,127
Shareholders' Equity		
Paid-up share capital	164,966	164,966
Share premium	-	-
Legal reserve	34,028	34,028
General loan loss reserve	-	-
Impairment reserve	10,127	10,127
Retained earnings	46,897	46,897
Special reserve	998	998
Cumulative changes in fair value of investments	(4,066)	(4,066)
Subordinated debt reserve	11,400	11,400
Total shareholders' equity	264,350	264,350
Tier 1 Perpetual subordinated bonds	124,000	124,000
Total equity	388,350	388,350
Total liability and shareholders' funds	2,702,477	2,702,477

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.1 The 3 step approach to reconciliation *(Continued)*

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation

Table 2b – Expansion of Balance Sheet Under Regulatory Scope of Consolidation (RO '000)

For the year ended 31 December 2020	2020 financial Statement	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	79,020	79,020	
Balance with banks and money at call & short notice	46,174	46,174	
Balance with banks and money at call & short notice, of which:		46,298	
- Stage 1 / 2 impairment allowance , of which	-	(124)	
- amount eligible for T2	-	-	
Investments, of which:	306,368	306,368	
Fair Value Through Other Comprehensive income (FVOCI)	-	305,671	
Fair Value Through Profit & Loss (FVTPL)	-	697	
- Stage 1 / 2 impairment allowance , of which	-	-	
- amount eligible for T2	-	-	
Loans and advances – Net, of which:	2,218,897	2,218,897	
- Loans and advances to domestic banks	-	-	
- Loans and advances to domestic customers	-	1,761,543	
- Loans and advances to non-resident for operations abroad	-	16,768	
- Loans and advances to SMEs	-	142,214	
- Financing from Islamic banking window	-	356,972	
- Expected credit loss allowance , of which:	-	(58,600)	
- Stage 3 impairment allowance and Reserve interest & profit	-	(31,794)	
- Stage 1 / 2 impairment allowance , of which	-	(26,806)	
- amount eligible for T2	-	19,129	h
- amount ineligible for T2	-	7,677	
Fixed assets	22,864	22,864	
- Intangibles(CET1 adjustment)		(3,491)	e
- Other fixed asset		(19,373)	
Other assets	29,154	29,154	
Other assets, of which		29,193	
- Stage 1 / 2 impairment allowance , of which		(39)	
- amount eligible for T2		-	
- amount ineligible for T2		(39)	
Total Assets	2,702,477	2,702,477	
Capital & Liabilities			
Paid-up Capital, of which:	164,966	164,966	
- Amount eligible for CET1	-	164,966	a
Reserves & Surplus; of which	223,384	223,384	
- Amount eligible for CET1 (Legal reserve)		34,028	c
- Amount eligible for CET1 (Subordinated debt reserve)		11,400	d

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.1 The 3 step approach to reconciliation *(Continued)*

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation *(Continued)*

- Amount eligible for CET1 (Retained earnings)		46,897	b
- Proposed cash dividend(removed from retained earnings)	-	(9,748)	b
- Proposed stock dividend(removed from retained earnings)	-	-	
- Amount ineligible for CET1 (Special Reserve)	-	998	
- Amount eligible for AT1	-	124,000	f
- Amount ineligible for T2 (Impairment reserve)	-	10,127	
- Amount eligible for T2 (Investments Fair value gains)	-	2,719	i
- FVOCI investments fair value loss (CET1 adjustment)	-	(5,008)	e
- Fair value reserve	-	(1,777)	
Total Capital		388,350	388,350

	2020 financial Statement	Under Regulatory scope of consolidation	Reference
For the year ended 31 December 2020			
Deposits from banks	135,244	135,244	
Customer deposits, of which	1,924,654	1,924,654	
- Deposits for customers	-	1,639,189	
- Deposits of Islamic Banking window	-	285,465	
Borrowings, of which:	159,775	159,775	
- From banks	159,775	159,775	
Borrowings in form of bonds, Debentures & sukuks, of which	12,000	12,000	
- Amount eligible for T2		600	g
- Amount ineligible for T2		11,400	
Other liabilities & provisions	82,454	82,454	
Other liabilities & provisions, of which		81,066	
- Stage 3 provision	-	-	
- Stage1 / 2 impairment allowance , of which	-	1,388	
- amount eligible for T2	-	-	
- amount ineligible for T2	-	1,388	
Total Capital & Liabilities	2,702,477	2,702,477	

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.1 The 3 step approach to reconciliation *(Continued)*

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)			
	For the year ended 31 December 2020	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	164,966	a
2	Retained earnings	37,149	b
3	Accumulated other comprehensive income (and other reserves)	45,428	c+d
4	Common Equity Tier 1 capital before regulatory adjustments	247,543	
5	Prudential valuation adjustments	(8,499)	e
6	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
7	Total regulatory adjustments to Common equity Tier 1	(8,499)	
8	Common Equity Tier 1 capital (CET1)	239,044	
9	Additional Tier 1 capital (AT1)	124,000	f
	Tier 1 capital (T1 = CET1 + AT1)	363,044	
9	Directly issued qualifying Tier 2 instruments plus related stock surplus	600	g
10	Expected credit loss allowance / Provisions	19,129	h
11	Fair value reserve of FVOCI investments	2,719	i
	Tier 2 capital before regulatory adjustments	22,448	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	22,448	
	Total capital (TC = T1 + T2)	385,492	

* The Board of Directors have proposed cash dividend of 5%, which has been adjusted in the capital of the Bank.

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.2 Main Features of regulatory capital

Table below discloses the key features of all the regulatory capital issued by the Bank;

1	ahlibank SAOG	Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual Subordinated Bonds (Additional Tier1)	Perpetual Subordinated Bonds (Additional Tier1)	Perpetual Subordinated Bonds (Additional Tier1)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1	Tier II	Additional Tier I	Additional Tier I	Additional Tier I
5	Post-transitional Basel III rules	Common Equity Tier 1	Eligible	Eligible	Eligible	Eligible
6	Eligible at solo/ group/group & solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated debt	Rights Issue of Perpetual Subordinated bonds	Private placement	Private placement
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 164.966 million	RO 11.400 million	RO 50 million	RO 54 million	RO 20 million
9	Par value of instrument	RO 164.966 million	RO 12.000 million	RO 50 million	RO 54 million	RO 20 million
10	Accounting classification	Shareholders' Equity	Liability amortised cost	Equity	Equity	Equity
11	Original date of issuance	Bank started operations in 1997	*Refer to the below table	11-October-2017	17-December-2018	13- June-2019
12	Perpetual or dated	Perpetual	Dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	**Refer to the below table	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.2 Main Features of regulatory capital *(Continued)*

15	Optional call date, contingent call dates and redemption amount	NA	NA	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.
16	Subsequent call dates, if applicable	NA	NA			
	Coupons / dividends					
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	NA	4%-5%	7.50%	7.50%	7.50%
19	Existence of a dividend stopper	NA	No	NA	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	NA	NA	NA
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	Statutory approach	NA	NA	NA
25	If convertible, fully or partially	NA	May convert fully or Partially	NA	NA	NA
26	If convertible, conversion rate	NA	Average price *	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	Optional	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	CET 1	NA	NA	NA

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

11. BASEL III CAPITAL DISCLOSURE *(Continued)*

11.2 Main Features of regulatory capital *(Continued)*

29	If convertible, specify issuer of instrument it converts into	NA	ahlibank	NA	NA	NA
30	Write-down feature	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Statutory approach	Statutory approach	Statutory approach	Statutory approach	Statutory approach
32	If write-down, full or partial	Write down fully	May be written down partially	Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/ bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/ bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/ bonds/sukuk of the bank
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA	NA	NA

Number Of Subordinated debt (as per Basel III) (RO '000)	Par value of instrument	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 4	1,000	1,000	30-Sep-14	30-Sep-21
Subordinated debt 5	5,000	5,000	01-Oct-14	02-Oct-21
Subordinated debt 9	3,000	3,000	29-Jun-15	29-Jun-21
Subordinated debt 10	3,000	2,400	10-Jun-15	13-Jun-22
Total	12,000	11,400		

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

12. BASEL III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three monthly data points.

LIQUIDITY COVERAGE RATIO (LCR)			
Common Disclosure Template			
			(RO '000)
			Total Unweighted Value (average)
			Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		289,560
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:		451,917
3	Stable deposits		18,642
4	Less stable deposits		433,275
5	Unsecured wholesale funding, of which:		489,537
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		1,097
7	Non-operational deposits (all counterparties)		423,217
8	Unsecured debt		65,223
9	Secured wholesale funding		48,355
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements		104,248
12	Outflows related to loss of funding on debt products		-
13	Credit and liquidity facilities		16,182
14	Other contractual funding obligations		
15	Other contingent funding obligations		93,912
16	TOTAL CASH OUTFLOWS		1,204,151
Cash Inflows			
17	Secured lending (e.g. reverse repos)		-
18	Inflows from fully performing exposures		118,112
19	Other cash inflows		122,782
20	TOTAL CASH INFLOWS		240,894
21	TOTAL HQLA		289,560
22	TOTAL NET CASH OUTFLOWS		162,489
23	LIQUIDITY COVERAGE RATIO (%)		178.20%

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

12. BASEL III LIQUIDITY DISCLOSURE *(Continued)*

NET STABLE FUNDING RATIO (NSFR)

Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

NSFR disclosure is presented below based on positions as on 31 December 2020.

Bank has maintained NSFR levels of 101%-110% during the year.

Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>=1 Year	Weighted Value
ASF ITEM						
1	Capital	395,240	-	-	-	395,240
2	Regulatory Capital	395,240	-	-	-	395,240
3	Other Capital Instruments					
4	Retail Deposits and Deposits from small Business Customers	287,495	47,387	109,508	67,949	472,933
5	Stable Deposit	99,704	377	587	522	96,156
6	Less Stable Deposit	187,791	47,010	108,921	67,427	376,777
7	Wholesale Funding	217,405	294,307	438,116	414,290	889,204
8	Operational	1,336	-	-	-	668
9	Other Wholesale Funding	216,069	294,307	438,116	414,290	888,536
10	Liabilities with matching interdependent Assets					
11	Other Liabilities	-	-	-	130,900	130,900
12	NSFR Derivative Liability	-	-	-	-	-
13	All other liabilities and equities not included in above categories	300,387	-	-	-	-
14	Total ASF					1,888,277
RSF ITEM						
15	Total NSFR high-quality liquid assets (HQLA)					13,753
16	Deposits held at other financial institutions for operational purposes	17,769	-	-	-	8,884
17	Performing Loans and Securities					
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	159,998	2,983	-	25,491
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	69,315	395,542	40,234	1,509,494	1,535,615
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	53,322	34,659
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	6,979	5,247
25	Assets with matching interdependent liabilities					
26	Other Assets:					
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	1,365	-	157	1,521
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	91,753	91,753
32	Off-balance sheet items	-	178,742	38,206	21,106	11,903
33	Total RSF	-	-	-	-	1,728,826
34	NET STABLE FUNDING RATIO	-	-	-	-	109.22%

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

12. BASEL III LIQUIDITY DISCLOSURE *(Continued)*

LEVERAGE RATIO (LR)

Common Disclosure Template

The below Leverage Ratio disclosure is prepared in accordance with the requirements of the CBO letter BSD/2017/BKUP/Leverage/564 – Implementation of Basel III Leverage Ratio issued on 27 August 2017.

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure			
	Item	Current Quarter	Previous Quarter
1	Total consolidated assets as per published financial statements	2,702,477	2,592,306
2	Adjustments for derivative financial instruments	5,696	7,292
3	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	87,138	76,037
4	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	88,432	89,615
5	Other adjustments	-	-
6	Leverage ratio exposure	2,883,743	2,765,251

Table 2: Leverage ratio common disclosure template			
	Item	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,702,477	2,592,306
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,702,477	2,592,306
Derivative Exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	2,662	3,040
5	Add-on amounts for PFE associated with all derivatives transactions	3,034	4,252
11	Total derivative exposures (sum of lines 4 to 10)	5,696	7,292
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	81,646	71,444
14	CCR exposure for SFT assets	5,492	4,593
16	Total securities financing transaction exposures (sum of lines 12 to 15)	87,138	76,038
Other Off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	190,873	200,783
18	(Adjustments for conversion to credit equivalent amounts)	(102,441)	(111,168)
19	Off-balance sheet items (sum of lines 17 and 18)	88,432	89,615
Capital and total exposures			
20	Tier 1 capital	372,792	358,545
21	Total exposures (sum of lines 3, 11, 16 and 19)	2,883,743	2,765,251
Leverage Ratio			
22	Basel III leverage ratio (%)	12.9%	13.0%

BASEL II PILLAR III AND BASEL III Report *(continued)*

31 December 2020

12. BASEL III LIQUIDITY DISCLOSURE *(Continued)*

The financial statements and other related disclosures are also available on the Bank's website, to view it on the website refer the link <http://ahlibank.om/investor-relations/financial-reports/>.

The Basel II, Pillar III report is prepared in accordance with the requirements of Basel II, Pillar III disclosures as set out in the CBO circulars BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated March 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated 26 October 2016. The Bank's disclosure on leverage was prepared as per CBO circular on leverage ratio, issued on 27 August 2017 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated 30 December 2018.

For ahlibank SAOG



Hamdan Ali Nasser Al Hinai

Chairman

Date: 27 January 2021

Financial Statements of the Bank

For the year ended 31 December 2020



Independent auditor’s report to the shareholders of Ahli Bank SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ahli Bank SAOG (the “Bank”) as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank’s financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key audit matter

- Expected credit losses on loans, advances and financing to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.



Independent auditor’s report to the shareholders of Ahli Bank SAOG (continued)

Our audit approach (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses on loans, advances and financing to customers</p> <p>At 31 December 2020, the Bank had net investment in loans, advances and financing to customers of RO 2,218.9 million net of credit impairment provision of RO 58.6 million.</p> <p>The Bank applies the requirements of International Financial Reporting Standard 9 ‘Financial Instruments’ (IFRS 9) to determine Expected Credit Loss (ECL) on loans, advances and financing to customers.</p> <p>As disclosed in note 37, the COVID-19 global pandemic significantly impacted management’s determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate of Stage 1 and Stage 2 ECL in future periods.</p> <p>To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in the Bank’s modelled results, management applied credit judgments, quantitative and qualitative adjustments to its overall loan’s portfolio resulting from COVID-19, the temporary effects of the loan deferral schemes, which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by COVID-19.</p> <p>We focused on this area because management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any impairment, and this has a material impact on the financial statements of the Bank. The key areas of judgements include:</p> <ul style="list-style-type: none"> establishing portfolios of similar financial assets for the purposes of measuring ECL; 	<p>We obtained an understanding of management’s assessment of impairment of loans, advances and financing including the Bank’s internal rating model, impairment allowance policy and the ECL modelling methodology.</p> <p>We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances.</p> <p>We performed the following substantive procedures:</p> <ul style="list-style-type: none"> read the Bank’s IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation; obtained an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL; tested a sample of loans to determine the appropriateness and application of the staging criteria; obtained an understanding of the methodology to identify and calculate individual impairment allowance for stage 3 exposures and tested a sample of credit exposures against the methodology; and assessed the related financial statement disclosures to determine if they are in accordance with the requirements of International Financial Reporting Standards.



Independent auditor’s report to the shareholders of Ahli Bank SAOG (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of default (PD), Loss Given default (LGD), and Exposure at Default (EAD); determining criteria for significant increase in credit risk (SICR) and judgements in classification of loans into stage 2; establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; judgements in calculation of management overlays; judgement to determine when a default event has occurred (for stage 3 customers); and determining disclosure requirements in accordance with IFRS. <p>Information on the accounting policy and credit risk management is included in notes 4 and 37.1 to the financial statements respectively. Disclosures relating to the ECL provisions are included in notes 8 and 29 to the financial statements.</p>	<p>We involved our specialists in areas that required specific expertise (e.g. ECL model) including:</p> <ul style="list-style-type: none"> testing the implementation of IFRS 9 methodology for the ECL calculation; testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used; assessing the appropriateness of the definition of default and testing the application of the default criteria; assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD; assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; and testing and assessing the reasonableness of the Bank’s use of scenarios, weightings and discounting.

Other information

The directors are responsible for the other information. The other information comprises the Chairman’s report, Management Discussion and Analysis, Financial Statements of Ahli Islamic, Corporate Governance Report, Shari’a Compliance Report of Shari’a Supervisory Board, Sustainable Results including five years summary and Basel II Pillar III and Basel III Reports of the Bank and Ahli Islamic (but does not include the financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report and the Bank’s Annual Report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Bank’s Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.



Independent auditor’s report to the shareholders of Ahli Bank SAOG (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Independent auditor’s report to the shareholders of Ahli Bank SAOG (continued)

Auditor’s responsibilities for the audit of the financial statements (continued)

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

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

Kashif Kalam
Muscat, Sultanate of Oman
9 March 2021

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

2019	2020		Note	2020	2019
US\$ '000	US\$ '000			RO '000	RO '000
		ASSETS			
281,797	205,247	Cash and balances with Central Bank of Oman	6	79,020	108,492
130,587	119,932	Due from banks	7	46,174	50,276
5,337,626	5,763,369	Loans & advances and financing, net	8	2,218,897	2,054,986
670,514	795,761	Investment securities	9	306,368	258,148
66,055	75,724	Other assets	13	29,154	25,431
55,049	59,387	Property and equipment	10	22,864	21,194
<u>6,541,628</u>	<u>7,019,420</u>	TOTAL ASSETS		<u>2,702,477</u>	<u>2,518,527</u>
		LIABILITIES AND EQUITY			
513,519	351,283	Due to banks	14	135,244	197,705
4,446,042	4,999,101	Customers' deposits	15	1,924,654	1,711,726
330,000	415,000	Borrowed funds	16	159,775	127,050
314	743	Deferred tax liability	12	286	121
196,701	213,423	Other liabilities	17	82,168	75,730
44,156	31,169	Subordinated liabilities	18	12,000	17,000
<u>5,530,732</u>	<u>6,010,719</u>	TOTAL LIABILITIES		<u>2,314,127</u>	<u>2,129,332</u>
		EQUITY			
408,078	428,482	Share capital	19	164,966	157,110
82,161	88,385	Legal reserve	20	34,028	31,632
36,364	29,611	Subordinated debt reserve	18	11,400	14,000
(10,995)	(10,561)	Fair value reserve		(4,066)	(4,233)
4,917	2,592	Special reserve	8	998	1,893
24,244	26,303	Impairment reserve	8	10,127	9,334
144,049	121,811	Retained earnings		46,897	55,459
<u>688,818</u>	<u>686,623</u>	TOTAL NET EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK		<u>264,350</u>	<u>265,195</u>
322,078	322,078	Tier 1 Perpetual subordinated bonds	22	124,000	124,000
<u>1,010,896</u>	<u>1,008,701</u>	TOTAL EQUITY		<u>388,350</u>	<u>389,195</u>
<u>6,541,628</u>	<u>7,019,420</u>	TOTAL LIABILITIES AND NET EQUITY		<u>2,702,477</u>	<u>2,518,527</u>
44	42	Net assets value per share (US cents / baizas)	23	160	169
<u>754,512</u>	<u>622,696</u>	Contingent liabilities and commitments	24	<u>239,738</u>	<u>290,487</u>

The financial statements and notes 1 to 39 were approved by the Board of Directors on 27 January 2021 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 82 - 86.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000		Note	2020 RO '000	2019 RO '000
274,036	292,478	Interest income	25	112,604	105,504
(157,842)	(165,595)	Interest expense	26	(63,754)	(60,769)
116,194	126,883	NET INTEREST INCOME		48,850	44,735
49,527	48,452	Income from Islamic financing and investments	25	18,654	19,068
(17,569)	(19,247)	Unrestricted investment account holders' share of profit and profit expense	26	(7,410)	(6,764)
31,958	29,205	NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		11,244	12,304
26,662	21,197	Fees and commission income	28	8,161	10,265
(678)	(1,403)	Fees and commission expense	28	(540)	(261)
25,984	19,794	Net fees and commission income		7,621	10,004
7,029	9,821	Other operating income	27	3,781	2,706
181,165	185,703	OPERATING INCOME		71,496	69,749
(15,249)	(37,408)	Net impairment on financial assets	29	(14,402)	(5,871)
165,916	148,295	NET OPERATING INCOME		57,094	63,878
(44,194)	(48,288)	Staff expenses	30	(18,591)	(17,015)
(5,907)	(6,774)	Depreciation and amortisation	10	(2,608)	(2,274)
(21,713)	(23,106)	Other operating expenses	31	(8,896)	(8,360)
(71,814)	(78,168)	OPERATING EXPENSES		(30,095)	(27,649)
94,102	70,127	PROFIT BEFORE TAXATION		26,999	36,229
(13,543)	(7,873)	Tax expense	12	(3,031)	(5,214)
80,559	62,254	PROFIT FOR THE YEAR		23,968	31,015
		OTHER COMPREHENSIVE INCOME / (LOSS)			
		Items that will not be reclassified to profit or loss			
(1,444)	278	Equity investments at FVOCI - net changes in fair value		107	(556)
166	81	Realized gain on equity investment at FVOCI		31	64
		Items that will be reclassified to profit or loss			
(473)	(4,203)	Cash flow hedge - net changes in fair value		(1,618)	(182)
8,743	4,358	Changes in fair value of FVOCI debt investments - net		1,678	3,366
6,992	514	OTHER COMPREHENSIVE INCOME FOR THE YEAR		198	2,692
87,551	62,768	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		24,166	33,707
5	4	Basic and diluted earnings per share (US cents / baizas)	32	15	19

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 82 - 86.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

		Attributable to the owners of the Bank										
		Share capital	Legal reserve	Subordinated debt reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Tier 1 Perpetual subordinated bonds	Total equity	
Note		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	157,110	31,632	14,000	(4,233)	1,893	9,334	55,459	265,195	124,000	389,195	
	Profit for the year	-	-	-	-	-	-	23,968	23,968	-	23,968	
	Other comprehensive income	-	-	-	198	-	-	-	198	-	198	
	Transactions within equity											
	Transfer to legal reserve	20	-	2,396	-	-	-	(2,396)	-	-	-	
	Transfer to subordinated debt reserve	18	-	-	2,400	-	-	(2,400)	-	-	-	
	Transfer from subordinated debt reserve	18	-	-	(5,000)	-	-	5,000	-	-	-	
	Transfer to impairment reserve	8	-	-	-	-	793	(793)	-	-	-	
	Transfer from special reserve		-	-	-	(895)	-	895	-	-	-	
	Gain on sale of equity investments at FVOCI		-	-	(31)	-	-	31	-	-	-	
	Interest paid on Tier 1 perpetual subordinated bond	22	-	-	-	-	-	(9,300)	(9,300)	-	(9,300)	
			-	2,396	(2,600)	(31)	(895)	793	(8,963)	(9,300)	-	(9,300)
	Transactions with owners recognised directly in equity											
	Cash dividends	21	-	-	-	-	-	(15,711)	(15,711)	-	(15,711)	
	Issue of bonus shares	19,21	7,856	-	-	-	-	(7,856)	-	-	-	
	Total transactions with owners		7,856	-	-	-	-	(23,567)	(15,711)	-	(15,711)	
	At 31 December 2020	164,966	34,028	11,400	(4,066)	998	10,127	46,897	264,350	124,000	388,350	
	At 31 December 2020 (US\$ '000)	428,482	88,385	29,611	(10,561)	2,592	26,303	121,811	686,623	322,078	1,008,701	

STATEMENT OF CHANGES IN EQUITY *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Attributable to the owners of the Bank									
		Share capital	Legal reserve	Subordinated debt reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Tier 1 Perpetual subordinated bonds	Total equity
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
At 1 January 2019		149,629	28,530	18,600	(6,861)	1,927	7,710	55,469	255,004	104,000	359,004
Profit for the year		-	-	-	-	-	-	31,015	31,015	-	31,015
Other comprehensive income, net of tax		-	-	-	2,692	-	-	-	2,692	-	2,692
Transactions within equity											
Transfer to legal reserve	20	-	3,102	-	-	-	-	(3,102)	-	-	-
Transfer to impairment reserve	8	-	-	-	-	-	1,624	(1,624)	-	-	-
Transfer from special reserve		-	-	-	-	(34)	-	34	-	-	-
Gain on sale of equity investments at FVOCI		-	-	-	(64)	-	-	64	-	-	-
Interest paid on Tier 1 perpetual subordinated bond	22	-	-	-	-	-	-	(8,553)	(8,553)	-	(8,553)
Transfer from subordinated debt reserve	18	-	-	(8,000)	-	-	-	8,000	-	-	-
Transfer to subordinated debt reserve	18	-	-	3,400	-	-	-	(3,400)	-	-	-
		-	3,102	(4,600)	(64)	(34)	1,624	(8,581)	(8,553)	-	(8,553)
Transactions with owners recognised directly in equity											
Cash dividends	21	-	-	-	-	-	-	(14,963)	(14,963)	-	(14,963)
Issue of bonus shares	19,21	7,481	-	-	-	-	-	(7,481)	-	-	-
Total transactions with owners		7,481	-	-	-	-	-	(22,444)	(14,963)	-	(14,963)
Proceeds from Tier 1 perpetual subordinated bond	22	-	-	-	-	-	-	-	-	20,000	20,000
At 31 December 2019		157,110	31,632	14,000	(4,233)	1,893	9,334	55,459	265,195	124,000	389,195
At 31 December 2019 (US\$ '000)		408,078	82,161	36,364	(10,995)	4,917	24,244	144,049	688,818	322,078	1,010,896

The accompanying notes form an integral part of these financial statements.
 Report of the independent auditors - pages 82 - 86.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

2019	2020		2020	2019
US\$ '000	US\$ '000	Note	RO '000	RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
94,102	70,127		26,999	36,229
Profit before taxation				
Adjustments for:				
5,907	6,774	10	2,608	2,274
15,249	37,408	29	14,402	5,871
270	283	17	109	104
(29)	(31)	27	(12)	(11)
52	392	27	151	20
115,551	114,953		44,257	44,487
Operating profit before working capital changes				
(8,558)	(98,735)		(38,013)	(3,295)
(493,974)	(463,151)		(178,313)	(190,180)
(38,156)	(9,670)		(3,723)	(14,690)
130,081	553,060		212,928	50,081
74,962	21,050		8,104	28,861
(220,094)	117,507		45,240	(84,736)
(9,109)	(9,514)		(3,663)	(3,507)
(86)	(86)	17	(33)	(33)
(229,289)	107,907		41,544	(88,276)
Net cash generated from / (used in) operating activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
(15,527)	(11,114)	10	(4,279)	(5,978)
(2,571,752)	(1,580,177)		(608,368)	(990,125)
2,470,698	1,519,930		585,173	951,219
(116,581)	(71,361)		(27,474)	(44,884)
Net cash used in investing activities				
CASH FLOWS FROM FINANCING ACTIVITIES				
338,117	415,584		160,000	130,175
(143,117)	(330,584)		(127,275)	(55,100)
(20,779)	(12,987)		(5,000)	(8,000)
(2,078)	(2,455)		(945)	(800)
(38,865)	(40,808)	21	(15,711)	(14,963)
51,948	-	22	-	20,000
(22,216)	(24,156)	22	(9,300)	(8,553)
163,010	4,594		1,769	62,759
Net cash generated from financing activities				
(182,860)	41,140		15,839	(70,401)
352,382	169,522		65,266	135,667
169,522	210,662		81,105	65,266
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)				
CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING				
2019	2020	Note	2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
280,433	203,883	6	78,495	107,967
130,587	119,932	7	46,174	50,276
129,962	194,805		75,000	50,035
(371,460)	(307,958)		(118,564)	(143,012)
169,522	210,662		81,105	65,266
Cash and cash equivalents				

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 82 - 86.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

ahlibank SAOG (the 'Bank') is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial & investment banking activities through a network of thirty one branches as at year end with nineteen conventional and twelve Islamic branches. (2019 - Sixteen conventional and nine Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, PC 116, Sultanate of Oman.

ahli islamic (the Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of the Bank. The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO.

The Bank had 730 employees as at 31 December 2020 compared to 656 as at 31 December 2019.

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 International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019, disclosure requirements of the Capital Market Authority (CMA) of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO).

The Bank 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 carve out 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"), 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 IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

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 and financial instruments at fair value through other comprehensive income which have been measured at fair value. The statement of financial position is presented in the order of liquidity as this presentation is more appropriate to Bank's operations.

2.3 Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency of the Bank. The United States Dollar ('US\$') amounts shown in the financial statements have been translated from Rial Omani to US\$ for information purposes as a supplementary information only, using the exchange rate of RO 0.385 = US\$ 1.00. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

2. BASIS OF PREPARATION *(continued)*

2.5 Outbreak of Coronavirus (Covid-19)

The World Health Organization officially declared Covid-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the Bank have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of Country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc (refer CBO circular no. BSD/CB/2020/001 for details). Refer note 37 for further details with regard to impact of Covid19 and various measures taken by the Bank on it.

2.6 Standards, amendments and interpretations effective in 2020 and relevant for the Bank's operations

For the year ended 31 December 2020, the Bank has adopted 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 or after 1 January 2020.

The adoption of those standards and interpretations has resulted in changes to the Bank's accounting policies and has not affected the amounts reported for prior periods. Refer note 3 for further details in regard to changes to the Bank's accounting policies and disclosures.

2.7 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:

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

2.7.1 Interest rate benchmark reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The reliefs apply upon the transition of a financial instrument from a LIBOR to a risk-free-rate (RFR). Moreover, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

The amendments made to IFRS provide relief from the potential effects of the uncertainty caused by the reform. These amendments are effective from periods beginning on or after 1 January 2021 with earlier application being permitted. The Bank is currently assessing the impact of these reforms and next steps to ensure a smooth transition to the new benchmark.

2.7.2 IFRS 17 "Insurance Contracts" - effective for annual periods beginning on or after 1 January 2023

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

2.7.3 IFRS 9 Financial Instruments – Fees in the 10 per cent test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9 wherein it amended that the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank is currently assessing the impact on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Interbank Offered Rate (IBOR) Reform- Phase 1 Amendments

The Bank has adopted Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. Banks will cease rate submissions for the calculation of the London Interbank Offered Rates (LIBOR) after December 31, 2021. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Bank to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Bank to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

In order to manage the transition from LIBOR to alternative rates, the Bank's treasury and risk department is evaluating potential changes to market infrastructures on our risk framework, models, systems and processes, and reviewing legal documents to ensure that the Bank is prepared prior to the cessation of LIBOR. Refer note 36 for disclosures relating to the impact of adopting the Phase 1 amendments on judgements and estimates as well as fair value and cash flow hedges.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates 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 operating 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, which 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.

4.2 Revenue and expense recognition

4.2.1 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 include 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.

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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Revenue and expense recognition *(Continued)*

4.2.2 Fees and commission

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.

4.2.3 Dividends

Dividend income is recognised when the right to receive dividend is established.

4.2.4 Provisions

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

4.3 Financial assets and financial liabilities

4.3.1 Recognition and initial measurement

The Bank initially recognises loans and advances & financing, deposits, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments 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.

4.3.2 Measurement categories of financial assets and financial liabilities

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 and 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.2 Measurement categories of financial assets and financial liabilities *(continued)*

Financial assets measured at fair value through other comprehensive income

a) Debt instruments

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.

b) 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 on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income. Dividends are recognised in the statement of comprehensive income only when the right of payment has been established.

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

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 or mandatorily required to be measured at fair value as per IFRS 9. It is 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 available under IFRS 9 are:

- (i) Hold to Collect - Financial assets held with the objective to collect contractual cash flows.
- (ii) Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.
- (iii) Other - Financial assets held with trading intent or that do not meet the criteria of either "Hold to collect" or "Hold to collect and sell".

The Bank's business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset (Hold to collect) or both the contractual cash flows and from sale of asset (Hold to collect and sell). Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. These securities are classified in the 'other business model and measured at FVTPL

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.2 Measurement categories of financial assets and financial liabilities *(continued)*

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

4.3.2.1 Loans & advances and financings receivables

The Bank holds a portfolio of loans & advances and financing receivables for which interest rates are revised at periodic intervals. These rates are revised based on the market rates. Accordingly, the Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate that is consideration for time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

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.

The Bank has two classes of loans & advances and financing receivables;

Corporate banking (including SME)

Corporate customers includes loans & advances and financing given to corporate and institutional customers by way of working capital loans, term loans, overdrafts, leases, syndication arrangements, fund transfer facilities, etc.,

Retail banking

Retail banking offers a broad range of products and services to meet the personal banking needs of individual customers. It includes personal banking products such as current and savings accounts, mortgages and personal loans, credit cards, debit cards, overdraft facilities, islamic financing and fund transfer facilities.

4.3.2.2 Investments

Investments which are recognised in the statement of financial position includes:

- (i) Debt securities measured at FVOCI;
- (ii) Equity investment securities mandatorily measured at FVTPL and these are at fair value with changes recognised immediately in profit or loss;
- (iii) Equity investment securities designated at FVOCI

For debt securities measured at FVOCI, gain and losses are recognised in 'other comprehensive income' and when it is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The Bank has designated certain equity investments under FVOCI on the basis that these investments are not held for trading / intends to hold in long term for better dividend yields. The Bank elects to present in other comprehensive income the changes in the fair value of certain investments in equity instruments that are measured at FVOCI. The election is made on an instrument by instrument basis on initial recognition.

4.3.2.3 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with Central Bank of Oman, due from banks, due to banks and highly liquid financial assets with original maturities of upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.2 Measurement categories of financial assets and financial liabilities *(continued)*

4.3.2.4 Due from banks

These are stated at amortised cost using effective interest rate method, less any amounts written off and allowance for impairment.

4.3.2.5 Financial guarantee contracts, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letter of credit and loan commitments. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss that is incurred because of specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

“Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in note 4.3.5. Liabilities arising from financial guarantee and loan commitments are included within provisions under other liabilities in statement of financial position.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

4.3.2.6 Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in statement of comprehensive income, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in the statement of comprehensive income.

4.3.2.7 Borrowed funds

Borrowed funds are recognised initially at their issue proceeds less transaction cost, if any. Borrowings are subsequently stated at amortised cost, any difference between proceeds net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowing using the effective interest rate method.

4.3.2.8 Deposits and subordinated liabilities

Deposits and subordinated liabilities are measured at amortised cost using the effective interest method.

4.3.3 Derecognition

Financial assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Bank’s involvement in the asset. In that case, the Bank also recognises an associated liability.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.2 Derecognition *(continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

4.3.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted by IFRS or for gains and losses arising from a group of similar transactions.

4.3.5 Impairment

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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 as 12-month ECL:

- debt investment securities and loans & advances and financings 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.

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

i) 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);
- financial assets that are credit impaired at the reporting date: Difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- financial guarantee contracts; the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Overview of ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment requirements under IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.5 Impairment *(continued)*

ii) Overview of ECL principles *(continued)*

Credit loss 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.

Both 12 month expected credit loss and lifetime expected credit losses are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

Stage 1: Credit risk has not increased significantly since initial recognition- recognise 12 month expected credit losses.

Stage 2: Credit risk has not increased significantly since initial recognition- recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3: There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

iii) ECL calculation

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

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.

When estimating the ECL, the Bank considers three scenarios (a base case, good case and a bad case). Each of these is associated with different PDs, EADs and LGDs for calculating ECL on the financial assets. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral the amount that might be received for selling the asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.5 Impairment *(continued)*

iv) Presentation of ECL allowance in the statement of financial position

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

- financial assets at amortised cost: as a deduction from gross carrying amount of assets;
- loan commitments and financial guarantee contracts: carrying as provision and shown within other liabilities.
- 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.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

v) Debt instruments measured at fair value through OCI

The ECL's for debt instruments measured at FVOCI do not reduce the carrying amount of these financial statements in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance is recognised in the other comprehensive income with a corresponding charge to the statement of income. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of assets.

vi) Credit enhancements: collateral valuation and financial guarantees

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. To mitigate credit risk, the Bank will use collateral values, wherever possible. The Bank accepts various types of collateral such as cash margins, fixed deposits, real estate, shares listed in GCC etc., Collateral unless it is repossessed, is not recorded in the statement of financial position. Since the fair value of collateral affects the calculation of ECLs, management monitors and reassess the collateral values at regular intervals and requests for additional collateral, if required. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non financial collateral such as real estate is valued by certified third party valuers.

vii) 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. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. If, in a subsequent year, written off loans & advances and financings receivable is recovered, the recovery is credited to the statement of comprehensive income.

viii) Forward looking information

In its ECL 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 date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments when such differences are significantly material. Disclosures relating to model adjustments and management overlays are provided in note 37.1.7.

4.3.6 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 derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.7 Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost / FVOCI are credit impaired. A financial asset is "credit impaired" when one or more below mentioned events has occurred.

- significant financial difficulty of the borrower;
- a breach of contract such as default or past due event;
- the restructuring of a loan by the Bank;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

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

In making an assessment of whether an investment in a debt instrument is credit impaired, the Bank considers the following events:

- The markets' assessment of creditworthiness of those instrument yields.
- Rating agencies assessment
- The country's ability to access the capital markets for new debt issuance.

4.3.8 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

4.3.9 Modifications of financial assets and liabilities

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 derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows and the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income. If the cash flows are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

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 either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

4.3.10 Fair value measurement

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 an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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. Please refer to note 35 for fair value hierarchy valuation techniques.

The fair value of an asset or 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. Fair value of the 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

4.3.10 Fair value measurement *(continued)*

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.

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

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

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

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

4.3.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. For a cash flow hedge of a forecast transaction, the Bank makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss. 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); or
- hedges of a net investment in a foreign operation (net investment hedge).

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the statement of comprehensive income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the statement of comprehensive income.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the statement of comprehensive income for the year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Financial assets and financial liabilities *(continued)*

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

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

The Bank has applied the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). The Bank considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amounts of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument are uncertain.

The Phase 1 amendments to the Bank's policies are as follows:

- a. For the purpose of evaluating whether the hedging relationship is expected to be highly effective (i.e. prospective effectiveness assessment), the Bank assumes that the benchmark interest rate is not altered as a result of IBOR reform.
- b. If the Bank concludes that the actual result of a hedging relationship is outside the range of 80–125% (i.e. retrospective assessment), then the Bank determines whether the hedging relationship continues to qualify for hedge accounting or whether it needs to be discontinued. This includes, for example, determining that the hedge is expected to be highly effective prospectively and that the effectiveness of the hedging relationship can be reliably measured.
- c. For a hedge of a non-contractually specified benchmark portion of interest rate risk, the Bank applies the requirement that the designated portion needs to be a separately identifiable component only at the inception of the hedging relationship.
- d. For a cash flow hedge of a forecast transaction, the Bank assumes that the benchmark interest rate will not be not altered as a result of IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- e. In determining whether a previously designated forecast transaction is no longer expected to occur, the Bank assumes that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or – except for item (e) – when the hedging relationship is discontinued, the Bank will cease to apply the respective Phase 1 amendments.

4.4 Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for financial assets. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method. These securities are not derecognised as the related risks and rewards are not transferred to the counterparties.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) at predetermined price are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

4.5 Capitalisation of borrowing costs

Interest cost on borrowings that are directly associated with the acquisition and construction of the qualifying property, equipment and software are capitalised as part of the cost of these assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6 Property, equipment and software

Items of property, equipment and software are measured at cost less accumulated depreciation / amortisation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation / amortisation is provided on a straight-line basis over the estimated useful lives of property, equipment and software, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Building	25
Leasehold improvements	5
Computer and other equipment	5 - 10
Intangibles	10
Vehicles	5
Furniture	10

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work in progress is not depreciated until the asset is put to use.

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 sale proceeds with the carrying amount and are recognised within 'other operating 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, equipment and software. All other expenditures are recognised in the statement of comprehensive income as an expense when incurred.

4.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and financings receivables. Real estate is stated at the lower of the net realisable value of the related loans and financings receivables 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.

4.8 Fiduciary assets

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

4.9 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 adjustment to tax payable in respect of previous years.

Deferred tax asset/liability is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4.11 Leases

A. Definition of lease

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

- the contract involves the right to direct the use of an identified asset;
- the contract has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

B. As a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use (ROU) assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate of 4.50% as the discount rate for measurement of lease liability.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or lease assessment whether it will exercise a purchase, extension or termination option.

Interest on lease liability during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of lease liability. Interest on lease liability is shown separately from the depreciation charge on ROU asset and is shown under other operating expenses in the statement of comprehensive income.

The Bank has disclosed ROU assets under 'property, equipment and software' and lease liabilities in 'other liabilities' in the statement of financial position.

The IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 'Leases' to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.12 Acceptances

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

4.13 Employee terminal benefits

4.13.1 Terminal 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 Labor Law 2003, as amended and in accordance with IAS 19 employee benefits.

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

4.13.2 Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

4.14 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4.15 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 of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

4.16 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.

4.17 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

Dividend for the year that is approved after the reporting date is considered to be an event after the reporting date and disclosed in the financial statements.

4.18 Perpetual subordinated bond

Perpetual subordinated bonds - Additional Tier 1 capital instruments of the Bank are recognised under equity in the statement of financial position 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 IAS 32 - Financial Instruments: Presentation. 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 on any interest payment date thereafter.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

5.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 37.1.7, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- (a) determining criteria for significant increase in credit risk;
- (b) choosing appropriate models and assumptions for measurement of ECL;
- (c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- (d) establishing groups of similar financial assets for the purposes of measuring ECL.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the Covid-19 pandemic may have a significant impact on the Bank's ECL measurement. In cases where borrowers have opted to participate in payment deferral programs, the Bank offered in response to the Covid-19 pandemic, deferred payments are not considered to be past due and do not on their own indicate a significant increase in credit risk, consistent with CBO guidance. The Bank has considered the following in updating their ECL calculations due to the Covid-19 pandemic:

Significant changes to the economic outlook and the impact on macroeconomic scenarios and assumptions – refer note 37.1.7

Individual and collective assessment of loans, receivables and other financial assets- In order to accelerate the detection of changes in credit quality, ratings were adjusted and the probabilities of default was assessed on a collective basis, considering risk characteristics based on sector wise analysis.

Extension of payment terms- payment terms are extended in light of the current economic circumstances based on CBO guidance. The terms and conditions of the extension was assessed to determine their impacts on the ECL estimate, including SICR was further explained in note 37.1.7.

Impact on material overlays on the ECL estimate are provided in note 37.1.7.

5.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various FVOCI financial assets that are not traded in active markets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT *(continued)*

5.3 Classification of Tier 1 perpetual bond instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the 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.

5.4 Going Concern

Management continues to have a reasonable expectation that the Bank has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the COVID-19 pandemic and the measures adopted by the Oman government to mitigate its spread have impacted the Bank. The Bank has provided various relief measures to the customers in the form of deferrals, waivers etc., This has impacted the Bank’s financial performance during the year and also its liquidity position.

For the year ended 31 December 2020, the Bank has recognised a net profit after tax of RO 23.968 million. The Bank’s high quality liquid assets were RO 289.560 million as at 31 December 2020 with the liquidity coverage ratio of 178.20%.

There is uncertainty over how the future development of the outbreak will impact the Bank’s business. The appropriateness of the going concern basis of accounting is dependent on the continued availability of funds through repayment of loans by borrowers, borrowing facilities by compliance with loan covenants etc. On the other side, the Bank has taken various actions for cost reduction in the form of decrease in spent on capital expenditure, minimising the new recruitments, discussion with various suppliers on reducing costs etc.

Based on these factors, the management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

6. CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
39,109	37,906	Cash	14,594	15,057
1,299	1,299	Capital deposit with Central Bank of Oman	500	500
65	65	ATM deposit with Central Bank of Oman	25	25
241,324	165,977	Clearing account and placement with Central Bank of Oman	63,901	92,910
<u>281,797</u>	<u>205,247</u>		<u>79,020</u>	<u>108,492</u>

The capital and ATM deposits with the Central Bank of Oman (CBO) are mandatory deposits and cannot be withdrawn without its approval and accordingly are not available for use in day to day operations of the Bank.

7. DUE FROM BANKS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
50,764	72,792	Placements	28,025	19,544
79,831	47,462	Nostro account balances	18,273	30,735
(8)	(322)	Less: Impairment loss allowance	(124)	(3)
<u>130,587</u>	<u>119,932</u>		<u>46,174</u>	<u>50,276</u>

8. LOANS & ADVANCES AND FINANCING, NET

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
Conventional Banking				
3,027,847	3,415,312	Corporate lending	1,314,895	1,165,721
1,535,210	1,573,065	Retail lending	605,630	591,056
<u>4,563,057</u>	<u>4,988,377</u>	Loans & advances, gross	<u>1,920,525</u>	<u>1,756,777</u>
Islamic Banking				
526,112	553,543	Corporate financing	213,114	202,553
356,325	373,657	Retail financing	143,858	137,185
882,437	927,200	Financing, gross	356,972	339,738
5,445,494	5,915,577	Loans & advances and financing, gross	2,277,497	2,096,515
(107,868)	(152,208)	Loans and financing impairment (including reserve interest and profit)* - Refer note 37.1.7	(58,600)	(41,529)
<u>5,337,626</u>	<u>5,763,369</u>		<u>2,218,897</u>	<u>2,054,986</u>

*Reserve interest forms part of specific provision for the purpose of IFRS.

The table below analyses the concentration of gross loans & advances and financing by economic sector:

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
1,891,535	1,946,722	Personal loans	749,488	728,241
1,193,075	1,314,055	Construction	505,911	459,334
461,945	604,935	Wholesale and retail trade	232,900	177,849
411,075	478,190	Services	184,103	158,264
384,530	419,434	Financial institutions	161,482	148,044
261,587	327,374	Manufacturing	126,039	100,711
302,966	270,636	Electricity, gas and water	104,195	116,642
280,948	270,026	Mining and quarrying	103,960	108,165
167,322	200,777	Transport and communication	77,299	64,419
43,553	43,553	Non-resident lending	16,768	16,768
46,958	39,875	Other	15,352	18,078
<u>5,445,494</u>	<u>5,915,577</u>		<u>2,277,497</u>	<u>2,096,515</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

8. LOANS & ADVANCES AND FINANCING, NET *(continued)*

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.

8.1 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2020:

Disclosure requirements for the year ended 31 December 2020, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9,

interest recognised as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross amount RO'000	Provision required as per CBO norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held** RO'000	Net amount as per CBO norms* RO'000	Net amount as per IFRS 9 RO'000	Interest recognised in SOCI as per IFRS 9 RO'000	Reserve interest as per CBO norms RO'000
Standard	Stage1	1,769,171	25,935	8,315	17,620	1,743,236	1,760,856	-	-
	Stage2	296,565	-	8,356	(8,356)	296,565	288,209	-	-
	Stage3	-	-	-	-	-	-	-	-
Subtotal		2,065,736	25,935	16,671	9,264	2,039,801	2,049,065	-	-
Special Mention	Stage1	-	-	-	-	-	-	-	-
	Stage2	145,359	-	10,135	(10,135)	145,359	135,224	-	-
	Stage3	-	-	-	-	-	-	-	-
Subtotal		145,359	-	10,135	(10,135)	145,359	135,224	-	-
Substandard	Stage1	-	-	-	-	-	-	-	-
	Stage2	-	-	-	-	-	-	-	-
	Stage3	810	214	405	(191)	580	405	-	16
Subtotal		810	214	405	(191)	580	405	-	16
Doubtful	Stage1	-	-	-	-	-	-	-	-
	Stage2	-	-	-	-	-	-	-	-
	Stage3	21,899	10,104	6,605	3,499	11,035	15,294	-	760
Subtotal		21,899	10,104	6,605	3,499	11,035	15,294	-	760
Loss	Stage1	-	-	-	-	-	-	-	-
	Stage2	-	-	-	-	-	-	-	-
	Stage3	43,693	35,864	24,784	11,080	3,337	18,909	-	4,492
Subtotal		43,693	35,864	24,784	11,080	3,337	18,909	-	4,492
Other items not covered under CBO circular BM 977 and related instructions	Stage1	611,072	-	584	(584)	611,072	610,488	-	-
	Stage2	54,216	-	1,019	(1,019)	54,216	53,197	-	-
	Stage3	-	-	-	-	-	-	-	-
Subtotal		665,288	-	1,603	(1,603)	665,288	663,685	-	-
Total	Stage1	2,380,243	25,935	8,899	17,036	2,354,308	2,371,344	-	-
	Stage2	496,140	-	19,510	(19,510)	496,140	476,630	-	-
	Stage3	66,402	46,182	31,794	14,388	14,952	34,608	-	5,268
	Total	2,942,785	72,117	60,203	11,914	2,865,400	2,882,582	-	5,268
Total (US\$'000)		7,643,597	187,316	156,371	30,945	7,442,598	7,487,226	-	13,683

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, loan commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

8. LOANS & ADVANCES AND FINANCING, NET *(continued)*

8.2 Restructured loans

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount RO '000	Provision required as per CBO norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held	Net Carrying amount as per CBO norms* RO '000	Net carrying amount as per IFRS 9 RO '000	Interest recognised in SOCI as per IFRS 9 RO '000	Reserve interest as per CBO norms RO '000
					(6) = (4)-(5) RO '000				
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	45,101	998	2,688	(1,690)	44,103	42,413	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		45,101	998	2,688	(1,690)	44,103	42,413	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	22,632	13,379	8,522	4,857	7,768	14,110	-	1,485
Sub total		22,632	13,379	8,522	4,857	7,768	14,110	-	1,485
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	45,101	998	2,688	(1,690)	44,103	42,413	-	-
	Stage 3	22,632	13,379	8,522	4,857	7,768	14,110	-	1,485
	Total	67,733	14,377	11,210	3,167	51,871	56,523	-	1,485
Total (US \$'000)		175,930	37,343	29,117	8,226	134,730	146,813	-	3,857

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

8.3 Impairment charge and provisions held

	As per CBO norms	As per IFRS9	Difference
Impairment loss charged to SOCI	15,335	14,402	933
Provisions required as per CBO norms/held as per IFRS 9	72,117	60,203	11,914
Gross NPL ratio (percentage)	2.92%	2.92%	-
Net NPL ratio (percentage)	0.66%	1.52%	-0.86%

Impairment reserve:

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.

Special reserve:

During the year, impairment provision on specific basis includes provision on re-structured loans as per CBO guidelines. Similarly based on the requirements of the CBO's letter BSD/2017/BKUP/Bankd&FLC/467 dated 20 June 2017, the Bank is required to create a provision on certain loans appropriated to a special reserve account. Accordingly, the Bank set aside an amount of RO 0.998 million (2019: RO 1.893 million) equivalent to US\$ 2.592 million (2019: US\$ 4.917 million) as a non distributable special reserve in its statement of changes in equity for the current year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

8 LOANS & ADVANCES AND FINANCING, NET *(continued)*

8.4 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2019:

Disclosure requirements for the year ended 31 December 2019, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

Asset classification as per CBO norms	Asset classification as per IFRS 9	Provision required as per CBO norms		Difference between CBO provision required and provision held as per IFRS 9		Net amount as per IFRS9		Interest recognised in SOCI as per IFRS9	Reserve interest as per CBO norms
		Gross amount RO'000	as per CBO norms RO'000	Provision held as per IFRS 9 RO'000	provision required and held** RO'000	Net amount as per CBO norms* RO'000	as per IFRS9 RO'000		
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4)-(10)	(8)=(3)-(5)	(9)	(10)
Standard	Stage 1	1,680,824	24,586	5,992	18,594	1,656,238	1,674,832	-	-
	Stage 2	247,486	-	5,357	(5,357)	247,486	242,129	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		1,928,310	24,586	11,349	13,237	1,903,724	1,916,961	-	-
Special Mention	Stage 1	3,322	-	123	(123)	3,322	3,199	-	-
	Stage 2	128,445	-	9,242	(9,242)	128,445	119,203	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		131,767	-	9,365	(9,365)	131,767	122,402	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,967	782	1,274	(492)	2,131	1,693	-	54
Subtotal		2,967	782	1,274	(492)	2,131	1,693	-	54
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,594	2,603	2,462	1 41	2,745	3,132	-	246
Subtotal		5,594	2,603	2,462	141	2,745	3,132	-	246
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	27,877	25,676	17,078	8,598	(376)	10,799	-	2,577
Subtotal		27,877	25,676	17,078	8,598	(376)	10,799	-	2,577
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	632,782	-	270	(270)	632,782	632,512	-	-
	Stage 2	71,044	-	868	(868)	71,044	70,176	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		703,826	-	1,138	(1,138)	703,826	702,688	-	-
Total	Stage1	2,316,928	24,586	6,385	18,201	2,292,342	2,310,543	-	-
	Stage2	446,975	-	15,467	(15,467)	446,975	431,508	-	-
	Stage3	36,438	29,061	20,814	8,247	4,500	15,624	-	2,877
	Total	2,800,341	53,647	42,666	10,981	2,743,817	2,757,675	-	2,877
Total (US \$'000)		7,273,613	139,343	110,821	28,522	7,126,797	7,162,792	-	7,473

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, loan commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

8 LOANS & ADVANCES AND FINANCING, NET *(continued)*

8.5 Restructured loans

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required	Provision held	Difference between CBO provision required and provision held	Net Carrying amount	Net carrying amount	Interest recognised	Reserve interest
			as per CBO norms	as per IFRS 9	and provision held	amount as per CBO norms*	amount as per IFRS 9	in SOCI as per IFRS 9	as per CBO norms
(1)	(2)	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Stage 1	-	-	-	-	-	-	-	-
Classified as performing	Stage 2	51,665	1,893	2,967	(1,074)	49,772	48,698	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Sub total	51,665	1,893	2,967	(1,074)	49,772	48,698	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	11,453	8,419	4,970	3,449	2,371	6,483	-	663
Sub total		11,453	8,419	4,970	3,449	2,371	6,483	-	663
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	51,665	1,893	2,967	(1,074)	49,772	48,698	-	-
	Stage 3	11,453	8,419	4,970	3,449	2,371	6,483	-	663
	Total	63,118	10,312	7,937	2,375	52,143	55,181	-	663
Total (US\$'000)		163,943	26,784	20,616	6,169	135,436	143,327	-	1,722

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

8.6 Impairment charge and provisions held

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	7,782	5,871	1,911
Provisions required as per CBO norms/ held as per IFRS 9	53,647	42,666	10,981
Gross NPL ratio (percentage)	1.74%	1.74%	-
Net NPL ratio (percentage)	0.21%	0.75%	-0.54%

Impairment reserve:

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.

Special reserve:

During the year, impairment provision on specific basis includes provision on re-structured loans as per CBO guidelines. Similarly based on the requirements of the CBO's letter BSD/2017/BKUP/Bank&FLC/467 dated 20 June 2017, the Bank is required to create a provision on certain loans appropriated to a special reserve account. Accordingly, the Bank set aside an amount of RO 1.893 million (2018: RO 1.927 million) equivalent to US\$ 4.917 million (2018: US\$ 5.005 million) as a non distributable special reserve in its statement of changes in equity for the current year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

9. INVESTMENT SECURITIES

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
		Equity investments:		
1,221	1,810	Measured at FVTPL	697	470
12,826	11,712	Designated at FVOCI	4,509	4,938
14,047	13,522		5,206	5,408
		Debt investments:		
656,467	782,239	Designated at FVOCI	301,162	252,740
670,514	795,761	Total investment securities	306,368	258,148

The table below summarises the concentration of investments by various sectors.

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
		Equity investments:		
		A. Measured at FVTPL		
		Quoted investments - Oman		
135	400	Banking and investment sector	154	52
249	405	Service sector	156	96
73	112	Manufacturing	43	28
		Quoted investments - Foreign		
-	125	Banking and investment sector	48	-
260	47	Manufacturing	18	100
208	327	Construction	126	80
296	394	Service sector	152	114
1,221	1,810	Total	697	470
		B. Designated at FVOCI		
		Quoted investments - Oman		
1,758	1,881	Manufacturing	724	677
2,436	2,855	Banking and investment sector	1,099	938
4,870	5,216	Service sector	2,008	1,875
		Quoted investments - Foreign		
574	229	Manufacturing	88	221
1,345	491	Banking and investment sector	189	518
1,504	816	Service sector	314	579
339	224	Construction	87	130
12,826	11,712	Total	4,509	4,938

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

9. INVESTMENT SECURITIES *(continued)*

2019 RO '000	2020 RO '000	Debt investments: Designated at FVOCI	2020 RO '000	2019 RO '000
		Quoted investments - Oman		
354,600	361,745	Government development bonds	139,272	136,521
45,686	79,055	Government bonds	30,436	17,589
79,842	78,821	Government sukuks	30,346	30,739
22,166	33,940	Services	13,067	8,534
49	13,036	Banking and investment	5,019	19
-	194,805	Treasury bills	75,000	-
		Quoted investments - Foreign		
2,125	2,140	Government bonds	824	818
4,230	-	Services	-	1,629
129,961	-	US treasury bills	-	50,035
17,808	18,697	Banking and investment	7,198	6,856
<u>656,467</u>	<u>782,239</u>	Total debt investments	<u>301,162</u>	<u>252,740</u>
<u>670,514</u>	<u>795,761</u>	Total investments	<u>306,368</u>	<u>258,148</u>

In 2020, the Bank received dividends of RO 0.305 million which is equivalent to US\$ 0.792 million (2019: RO 0.346 million equivalent US\$ 0.899 million) which was recognised as other operating income. (Refer note 27).

The Bank has designated certain equity investments at FVOCI as these are investments that are not held for trading and intended to be held for long term for better dividend yields. Certain investments were sold during the year on account of lesser yields. The cumulative gain recognised in other comprehensive income amounts to RO 0.031 million (2019: RO 0.064 million) equivalent to US\$ 0.081 million. (2019: US\$ 0.166 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

10. PROPERTY AND EQUIPMENT

	Freehold land	Building	Leasehold improvements	Computer and other equipment	Intangibles	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:										
At 1 January 2020	7,091	5,884	2,881	4,345	7,412	145	904	3,083	1,865	33,610
Additions	-	-	513	333	77	61	90	1,178	2,027	4,279
Transferred	-	-	-	282	630	-	-	-	(912)	-
Disposals / scrapped	-	-	(346)	(101)	(2)	-	(32)	-	-	(481)
At 31 December 2020	7,091	5,884	3,048	4,859	8,117	206	962	4,261	2,980	37,408
Accumulated depreciation and amortization:										
At 1 January 2020	-	1,431	2,155	3,148	4,074	144	707	757	-	12,416
Depreciation and amortisation	-	235	250	349	554	9	71	1,140	-	2,608
Disposals / scrapped	-	-	(346)	(100)	(2)	-	(32)	-	-	(480)
At 31 December 2020	-	1,666	2,059	3,397	4,626	153	746	1,897	-	14,544
Net book value as at 31 December 2020										
RO '000	7,091	4,218	989	1,462	3,491	53	216	2,364	2,980	22,864
US\$ '000	18,418	10,955	2,569	3,798	9,068	138	561	6,140	7,740	59,387

	Freehold land	Building	Leasehold improvements	Computer and other equipment	Intangibles	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:										
At 1 January 2019	7,091	5,884	2,297	3,664	6,103	145	838	-	1,681	27,703
Additions	-	-	610	718	378	-	74	3,083	1,115	5,978
Transferred	-	-	-	-	931	-	-	-	(931)	0
Disposals / scrapped	-	-	(26)	(37)	-	-	(8)	-	-	(71)
At 31 December 2019	7,091	5,884	2,881	4,345	7,412	145	904	3,083	1,865	33,610
Accumulated depreciation and amortization:										
At 1 January 2019	-	1,196	1,997	2,703	3,567	139	611	-	-	10,213
Depreciation and amortisation	-	235	184	482	507	5	104	757	-	2,274
Disposals / scrapped	-	-	(26)	(37)	-	-	(8)	-	-	(71)
At 31 December 2019	-	1,431	2,155	3,148	4,074	144	707	757	-	12,416
Net book value as at 31 December 2019										
RO '000	7,091	4,453	726	1,197	3,338	1	197	2,326	1,865	21,194
US\$ '000	18,418	11,566	1,886	3,108	8,671	3	511	6,042	4,844	55,049

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

11. LEASES

The Bank has taken various branch premises on lease rental basis which will fall under IFRS 16. The leases typically run for an average period of 5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Similarly, the Bank has taken certain office equipment (printers) on lease basis which are of short term in nature / leases of low value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases. Disclosure about leases for which the Bank is a lessee is as below:

I. Right of Use assets

Right-of-use assets related to leased branch and office premises are presented within property and equipment. Refer note 10 for the detailed breakup of those assets.

II. Amounts recognised in statement of comprehensive income

2019	2020		2020	2019
US\$'000s	US\$'000s	Particulars	RO'000s	RO'000s
200	247	Interest on lease liabilities	95	77
374	177	Expenses relating to short-term leases	68	144
156	538	Expenses relating to leases of low-value assets	207	60
<u>730</u>	<u>962</u>	Total	<u>370</u>	<u>281</u>

III. Amounts recognised in statement of cash flows

Refer to the cash flow statement for the payment made towards lease liabilities in the year 2020 and 2019.

IV. Lease liabilities

Refer note 37.2.2 for maturity analysis of liabilities as at 31 December 2020 and 31 December 2019.

12. TAXATION

a) Recognised in the statement of comprehensive income

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
		Current tax		
13,881	10,447	- Current year	4,022	5,344
-	(3,003)	- Prior years	(1,156)	-
(338)	429	Deferred tax	165	(130)
<u>13,543</u>	<u>7,873</u>		<u>3,031</u>	<u>5,214</u>

b) Tax liability

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
		Current tax		
13,881	10,447	- Current year	4,022	5,344
4,516	6,327	- Prior years	2,436	1,739
<u>18,397</u>	<u>16,774</u>		<u>6,458</u>	<u>7,083</u>

Tax liability is included under note 17 - other liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

12 TAXATION *(continued)*

c) Deferred tax liability

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
(652)	(314)	At 1 January	(121)	(251)
338	(429)	(Charged)/ Reversed during the year	(165)	130
<u>(314)</u>	<u>(743)</u>	At 31 December	<u>(286)</u>	<u>(121)</u>

d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2020 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (2019: 15%) on taxable profits.

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
94,102	70,127	Accounting profit for the year	26,999	36,229
14,115	10,519	Tax charge @ 15% on accounting profit	4,050	5,434
		Add / (less) tax effects of:		
(450)	(409)	Income not taxable	(158)	(173)
(39)	59	Non deductible expense / (income)	23	(15)
-	(3,003)	Prior year tax expense	(1,156)	-
(83)	706	Others	272	(32)
<u>13,543</u>	<u>7,873</u>	Tax expense	<u>3,031</u>	<u>5,214</u>

The Bank's tax assessments have been completed by the Tax Authorities upto the year 2016. The Bank is of the view that additional taxes amounting to RO 0.709 million (equivalent US\$ 1.840 million) would not be material on the statement of financial position of the Bank as at 31 December 2020.

13 OTHER ASSETS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
48,184	53,909	Acceptances	20,755	18,551
3,559	3,901	Prepayments	1,502	1,370
5,231	7,158	Interest and profit receivable on investments	2,756	2,014
2,548	6,914	Derivatives - positive mark-to-market (note 36)	2,662	981
6,562	3,943	Others	1,518	2,526
(29)	(101)	Less: Impairment loss allowance	(39)	(11)
<u>66,055</u>	<u>75,724</u>		<u>29,154</u>	<u>25,431</u>

14 DUE TO BANKS

2018	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
326,725	132,444	Inter-bank deposits	50,991	125,789
6,294	6,771	Vostro account balances	2,607	2,423
180,500	212,068	Borrowings under repurchase agreements	81,646	69,493
<u>513,519</u>	<u>351,283</u>		<u>135,244</u>	<u>197,705</u>

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of Oman treasury bills, OmGrid bonds, Oztel bonds, Government of Oman US\$ bonds and ICICI bonds. Market value of collateralized treasury bills/ bonds as of 31 December 2020 amounted to RO 88.174 million equivalent to US\$ 229.022 million (31 December 2019: RO 80.518 million equivalent to US\$ 209.137 million). The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. Collateralisation of these borrowings gives the lender the right to set off. As at 31 December 2020, the fair value of collateralized assets are higher than the borrowings under repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

15 CUSTOMERS' DEPOSITS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
Conventional Banking				
2,604,927	2,941,766	Time deposits	1,132,580	1,002,897
974,681	909,384	Demand deposits	350,113	375,252
328,218	406,483	Savings deposits	156,496	126,364
<u>3,907,826</u>	<u>4,257,633</u>		<u>1,639,189</u>	<u>1,504,513</u>
Islamic Banking				
281,036	360,077	Time deposits	138,630	108,199
108,395	126,081	Demand deposits	48,541	41,732
148,785	255,310	Savings deposits	98,294	57,282
<u>538,216</u>	<u>741,468</u>		<u>285,465</u>	<u>207,213</u>
<u>4,446,042</u>	<u>4,999,101</u>		<u>1,924,654</u>	<u>1,711,726</u>

16 BORROWED FUNDS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
330,000	415,000	Financial institutions	159,775	127,050

Borrowed funds includes unsecured US Dollar (USD) borrowings from foreign financial institutions. Applicable financial covenants for these borrowings include the requirement for a minimum tangible networth of the Bank, a minimum capital adequacy ratio and other covenants to be maintained by the Bank which have been complied during the current and prior year.

17 OTHER LIABILITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
48,184	53,909	Acceptances	20,755	18,551
87,987	89,634	Interest and profit payable	34,509	33,875
14,000	15,561	Accrued expenses	5,991	5,390
5,104	6,829	Staff related liabilities	2,629	1,965
5,182	15,554	Derivatives - negative mark-to-market (note 36)	5,988	1,995
18,397	16,774	Tax liability (note 12(b))	6,458	7,083
15,000	11,558	Others	4,450	5,775
2,847	3,604	Provision for off balance sheet items	1,388	1,096
<u>196,701</u>	<u>213,423</u>		<u>82,168</u>	<u>75,730</u>

Staff related liabilities includes employee end of service benefits liabilities, the movement during the year is as follows:

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
899	1,083	At 1 January	417	346
270	283	Provided during the year (note 30)	109	104
(86)	(86)	Payments made during the year	(33)	(33)
<u>1,083</u>	<u>1,280</u>	At 31 December	<u>493</u>	<u>417</u>

As per the directives of the CMA the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the "Investors' Trust Fund" established by the CMA. During the year unpaid cash dividend amounting to RO 0.028 million equivalent to US\$ 0.072 million was transferred to the "Investors' Trust Fund" (2019: RO 0.025 million equivalent to US\$ 0.064 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

18 SUBORDINATED LIABILITIES

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

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
44,156	31,169	Subordinated loans	12,000	17,000

For each of the last 5 years of the tenor of the subordinated loans, the Bank is required to transfer 20% of the liability to subordinated debt reserve. All subordinated liabilities are repayable at par on maturity. On repayment of subordinated loans, the related subordinated debt reserve balance is released to retained earnings. During the year, an amount of RO 5 million equivalent to US\$ 12.987 million was repaid on maturity. The maturity profile and interest rate of these liabilities are disclosed in note 37.2.2.

19 SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares amounting to RO 250.000 million (31 December 2019: 2,500,000,000 shares of RO 250.000 million) out of which 1,649,657,466 (31 December 2019: 1,571,102,349 shares) are issued and fully paid up amounting to RO 164.966 million (31 December 2019: RO 157.110 million). In the Bank's annual general meeting held on 3 June 2020, the shareholders approved to issue bonus shares of 5% of the capital (5 shares per 100 shares) which resulted an increase by 78,555,117 shares (31 December 2019: 74,814,398 shares).

Ahli United Bank B.S.C (AUB) is the only shareholder which owns 10% or more of the Bank's shares and having significant influence. On 31 December 2020, shareholding of AUB was 577,380,102 shares equivalent to 35% (31 December 2019: 549,885,812 shares equivalent to 35%).

The Board in their meeting held on 12 November 2020 approved further issue of share capital through rights issue to the extent of RO 30 million at 100Bz per share. The Bank is in the process of obtaining regulatory approvals for completing the rights issue process.

20 LEGAL RESERVE

As required by the Commercial Companies Law of 2019, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals one third of the paid up share capital. The reserve is not available for distribution to the shareholders. During the year, RO 2.396 million equivalent to US\$ 6.226 million (31 December 2019: RO 3.102 million equivalent to US\$ 8.056 million) was transferred to legal reserve.

21 DIVIDEND PAID AND PROPOSED

The Board of Directors have recommended cash dividend of 5 baizas per share which is subject to approval of the shareholders at the ensuing Annual General Meeting and the regulatory authorities (31 December 2019: cash dividend of 10 baizas per share and stock dividend of 5 shares per 100 shares). The cash dividend and stock dividend proposed for 2019 was approved by the shareholders in Annual General Meeting and was paid in 2020.

22 TIER 1 PERPETUAL SUBORDINATED BONDS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
322,078	322,078	Tier 1 perpetual subordinated bonds	124,000	124,000

In 2017, the Bank has issued perpetual subordinated bonds - Additional Tier 1 (AT1) capital instruments (the "Tier 1 Securities") amounting to RO 50 million (USD 129.870 million). They are redeemable by the Bank at its sole discretion on 11 October 2022 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In 2018, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 54 million (USD 140.260 million). They are redeemable by the Bank at its sole discretion on 17 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

22 TIER 1 PERPETUAL SUBORDINATED BONDS *(continued)*

In June 2019, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 20 million (USD 51.948 million). They are redeemable by the Bank at its sole discretion on 13 June 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

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

The Bank at its sole discretion may elect not to distribute interest on these Tier 1 perpetual subordinated bonds and this is not considered as an event of default. If the Bank does not pay interest on the Tier 1 perpetual subordinated bonds on the relevant interest payment date, the Bank shall not have any obligation to make any subsequent payment in respect of any unpaid interest payment amount. If interest is not paid as a consequence of a non payment event or a non payment election, then from the date of such Non-Payment Event or Non-Payment Election (the "Dividend Stopper Date"), the Bank will not, so long as any of the Bonds are outstanding declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, the ordinary shares of the Bank, ranking junior to or pari passu with the Tier 1 capital securities unless and until it has paid one interest payment in full on the Tier 1 capital securities. The Tier 1 capital securities also allow the bank to write down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel III and CBO regulations (BM 1114).

23 NET ASSETS VALUE PER SHARE

Net assets value per share is calculated by dividing the net assets with the issued and paid up shares at end of the year.

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
688,818	686,623	Net assets	264,350	265,195
1,571,102	1,649,657	Issued and paid up shares (in 000's) at 31 December	1,649,657	1,571,102
44	42	Net asset value per share (US cents /baizas)	160	169

24 CONTINGENT LIABILITIES AND COMMITMENTS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
400,218	323,429	Financial guarantees	124,520	154,084
182,987	172,345	Letters of credit	66,353	70,450
168,618	122,545	Loan commitments	47,180	64,918
2,689	4,377	Capital commitments	1,685	1,035
754,512	622,696		239,738	290,487

Legal cases

As at 31 December 2020, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore does not consider it necessary to make any additional provisions in this regard.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

25 INTEREST INCOME / INCOME FROM ISLAMIC FINANCING AND INVESTMENTS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
249,597	265,314	Loans and advances	102,146	96,095
23,330	26,099	Investments	10,048	8,982
1,109	1,065	Due from banks	410	427
<u>274,036</u>	<u>292,478</u>		<u>112,604</u>	<u>105,504</u>
47,891	43,987	Islamic financing	16,935	18,438
1,636	4,465	Islamic investment	1,719	630
<u>49,527</u>	<u>48,452</u>		<u>18,654</u>	<u>19,068</u>
<u>323,563</u>	<u>340,930</u>	Total	<u>131,258</u>	<u>124,572</u>

26 INTEREST EXPENSE / UNRESTRICTED INVESTMENT ACCOUNT HOLDERS' SHARE OF PROFIT AND PROFIT EXPENSE

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
102,579	116,491	Time deposits	44,849	39,493
25,852	26,421	Demand and saving deposits	10,172	9,953
11,351	14,408	Borrowings	5,547	4,370
18,060	8,275	Inter-bank deposits	3,186	6,953
<u>157,842</u>	<u>165,595</u>		<u>63,754</u>	<u>60,769</u>
13,551	18,647	Islamic customer deposits	7,179	5,217
4,018	600	Islamic investment	231	1,547
<u>17,569</u>	<u>19,247</u>		<u>7,410</u>	<u>6,764</u>
<u>175,411</u>	<u>184,842</u>	Total	<u>71,164</u>	<u>67,533</u>

27 OTHER OPERATING INCOME

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
29	31	Gain on sale of FVTPL investments	12	11
6,153	9,390	Foreign exchange gain, net	3,615	2,369
899	792	Dividend income (Refer note 9)	305	346
(52)	(392)	Unrealised loss on FVTPL investments	(151)	(20)
<u>7,029</u>	<u>9,821</u>		<u>3,781</u>	<u>2,706</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

28 DISAGGREGATION OF FEE AND COMMISSION INCOME, NET

IFRS 15 requires the disclosure of disaggregated revenue earned from contracts with customers for major products/ service lines. The below table provides disaggregation of fees and other income & commission with the Bank's reportable segments:

	2020			2019		
	Retail banking RO '000	Wholesale banking, treasury and investment banking RO '000	Total RO '000	Retail banking RO '000	Wholesale banking, treasury and investment banking RO '000	Total RO '000
Disaggregated income						
Service charges	573	411	984	592	500	1,092
Fees income	1,204	4,633	5,837	1,239	6,387	7,626
Commission income	36	1,304	1,340	23	1,524	1,547
Total fee and commission income	1,813	6,348	8,161	1,854	8,411	10,265
Fee expense	(540)	-	(540)	(248)	(13)	(261)
Net fee and commission income	1,273	6,348	7,621	1,606	8,398	10,004

	2020			2019		
	Retail banking US\$ '000	Wholesale banking, treasury and investment banking US\$ '000	Total US\$ '000	Retail banking US\$ '000	Wholesale banking, treasury and investment banking US\$ '000	Total US\$ '000
Disaggregated income						
Service charges	1,488	1,068	2,556	1,538	1,299	2,837
Fees income	3,126	12,034	15,160	3,217	16,590	19,807
Commission	94	3,387	3,481	60	3,958	4,018
Total fee and commission income	4,708	16,489	21,197	4,815	21,847	26,662
Fee expense	(1,403)	-	(1,403)	(644)	(34)	(678)
Net fee and commission income	3,305	16,489	19,794	4,171	21,813	25,984

29 NET IMPAIRMENT ON FINANCIAL ASSETS

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
		Net impairment charge		
5	314	Due from banks	121	2
18,470	44,340	Loans & advances and financing	17,071	7,111
8	65	Investment securities	25	3
-	73	Other assets	28	-
(218)	758	Loan commitments and financial guarantees	292	(84)
1,234	(99)	Loans & advances and financing written back/ off	(38)	475
(2,310)	(1,833)	Recovery of loans written off earlier	(706)	(889)
17,189	43,618		16,793	6,618
(1,940)	(6,210)	Less: Interest reserved during the period	(2,391)	(747)
15,249	37,408		14,402	5,871

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

30. STAFF EXPENSES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
37,818	41,787	Salaries and allowances	16,088	14,560
3,351	3,153	Other staff costs	1,214	1,290
2,755	3,065	Contribution to social insurance schemes	1,180	1,061
270	283	Employees end of service benefits (note 17)	109	104
<u>44,194</u>	<u>48,288</u>		<u>18,591</u>	<u>17,015</u>

31. OTHER OPERATING EXPENSES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
19,384	21,013	Operating and administration costs	8,090	7,463
1,810	1,574	Occupancy costs	606	697
519	519	Board related expenses	200	200
<u>21,713</u>	<u>23,106</u>		<u>8,896</u>	<u>8,360</u>

32. BASIC AND DILUTED EARNINGS PER SHARE

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
<u>80,559</u>	<u>62,254</u>	Profit for the year	<u>23,968</u>	<u>31,015</u>
<u>1,649,657</u>	<u>1,649,657</u>	Weighted average number of outstanding shares during the year (in 000's)	<u>1,649,657</u>	<u>1,649,657</u>
<u>5</u>	<u>4</u>	Earnings per share (cents / baizas)	<u>15</u>	<u>19</u>

Basic and diluted earnings per share are same as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

Earnings per share for the current and prior year has been calculated using the weighted average shares outstanding for the current year. The weighted average shares outstanding includes 224,621,322 bonus shares issued for nil consideration.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

33. RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at commercial terms as approved by the board.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
		Directors and senior management		
2,338	2,436	Loans & advances and financing, gross	938	900
1,301	1,213	- secured	467	501
1,036	1,223	- unsecured	471	399
5	5	- Expected credit loss allowance	2	2
2,029	3,268	Customers' deposits	1,258	781
		Major shareholders and others		
3,782	4,086	Due from banks	1,573	1,456
1,164	499	Investments securities	192	448
		Other assets		
130	579	- Fair value of forward contracts	223	50
13,465	11,909	Due to banks	4,585	5,184
88	68	Customers' deposits	26	34
		Other liabilities		
-	3	- Fair value of forward contracts	1	-
4,569	8,701	- Fair value of swaps	3,350	1,759
888	888	Contingent liabilities and commitments	342	342

Loans & advances and financing provided to directors and senior management are not credit impaired at the reporting date and ECL allowance was calculated based on expected credit losses.

The related maturity profile and interest rate risk is given in note 37.2.2 and 37.3.2 respectively.

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
		Directors and senior management		
81	109	Interest income	42	31
31	60	Interest expense	23	12
421	384	Board remuneration proposed	148	162
99	135	Board sitting fees	52	38
94	86	Shariah Supervisory Board expenses	33	36
83	-	Other operating expenses	-	32
		Major shareholders and others		
2,677	121	Interest expense	47	1,031
-	579	Gain on fair value of forward contracts	223	50
4,769	4,132	Loss on fair value of interest rate swaps	1,591	1,836
195	-	Other operating expenses	-	75

The Bank has rented branch premises from a Director during the year 2019 and paid RO 0.032 million equivalent to US\$ 0.083 million.

As at 31 December 2019, guarantees were issued to beneficiaries on behalf of related party amounting to RO 3.087 million equivalent to US\$ 8.019 million (31 December 2019: RO 3.042 million equivalent to US\$ 7.902 million). The Bank has earned RO 0.004 million equivalent to US\$ 0.010 million (2019: RO 0.006 million equivalent to US\$ 0.017 million) fee on issuing guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

33. RELATED PARTY TRANSACTIONS *(continued)*

Compensation of the key management personnel is as follows;

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
2,777	3,169	Salaries and allowances	1,220	1,069
101	68	End of service benefits	26	39
<u>2,878</u>	<u>3,237</u>		<u>1,246</u>	<u>1,108</u>

34. FINANCIAL INSTRUMENTS CLASSIFICATION

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

Particulars	Note	2020				Total
		Amortised cost RO '000	FVOCI-debt instruments RO '000	FVOCI-equity instruments RO '000	FVTPL RO '000	
Financial assets						
Cash and balances with Central Bank of Oman	6	79,020	-	-	-	79,020
Due from banks	7	46,174	-	-	-	46,174
Loans & advances and financing, net	8	2,218,897	-	-	-	2,218,897
Investment securities	9	-	301,162	4,509	697	306,368
Other assets - acceptances and interest and profit receivable	13	23,511	-	-	-	23,511
Financial liabilities						
Due to banks	14	135,244	-	-	-	135,244
Customers' deposits	15	1,924,654	-	-	-	1,924,654
Borrowed funds	16	159,775	-	-	-	159,775
Subordinated liabilities	18	12,000	-	-	-	12,000
Other liabilities - acceptances and interest and profit payable	17	55,264	-	-	-	55,264

Particulars	Note	2020				Total
		Amortised cost US\$ '000	FVOCI-debt instruments US\$ '000	FVOCI-equity instruments US\$ '000	FVTPL US\$ '000	
Financial assets						
Cash and balances with Central Bank of Oman	6	205,247	-	-	-	205,247
Due from banks	7	119,932	-	-	-	119,932
Loans & advances and financing, net	8	5,763,369	-	-	-	5,763,369
Investment securities	9	-	782,239	11,712	1,810	795,761
Other assets - acceptances and interest and profit receivable	13	61,067	-	-	-	61,067
Financial liabilities						
Due to banks	14	351,283	-	-	-	351,283
Customers' deposits	15	4,999,101	-	-	-	4,999,101
Borrowed funds	16	415,000	-	-	-	415,000
Subordinated liabilities	18	31,169	-	-	-	31,169
Other liabilities - acceptances and interest and profit payable	17	143,543	-	-	-	143,543

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

34. FINANCIAL INSTRUMENTS CLASSIFICATION *(Continued)*

Particulars	Note	2019					Total RO '000
		Amortised cost RO '000	FVOCI-debt instruments RO '000	FVOCI-equity instruments RO '000	FVTPL RO '000		
Financial assets							
Cash and balances with Central Bank of Oman	6	108,492	-	-	-	108,492	
Due from banks	7	50,276	-	-	-	50,276	
Loans & advances and financing, net	8	2,054,986	-	-	-	2,054,986	
Investment securities	9	-	252,740	4,938	470	258,148	
Other assets - acceptances and interest and profit receivable	13	20,565	-	-	-	20,565	
Financial liabilities							
Due to banks	14	197,705	-	-	-	197,705	
Customers' deposits	15	1,711,726	-	-	-	1,711,726	
Borrowed funds	16	127,050	-	-	-	127,050	
Subordinated liabilities	18	17,000	-	-	-	17,000	
Other liabilities - acceptances and interest and profit payable	17	52,426	-	-	-	52,426	

Particulars	Note	2019					Total US\$ '000
		Amortised cost US\$ '000	FVOCI-debt instruments US\$ '000	FVOCI-equity instruments US\$ '000	FVTPL US\$ '000		
Financial assets							
Cash and balances with Central Bank of Oman	6	281,797	-	-	-	281,797	
Due from banks	7	130,587	-	-	-	130,587	
Loans & advances and financing, net	8	5,337,626	-	-	-	5,337,626	
Investment securities	9	-	656,467	12,826	1,221	670,514	
Other assets - acceptances and interest and profit receivable	13	53,415	-	-	-	53,415	
Financial liabilities							
Due to banks	14	513,519	-	-	-	513,519	
Customer deposits	15	4,446,042	-	-	-	4,446,042	
Borrowed funds	16	330,000	-	-	-	330,000	
Subordinated liabilities	18	44,156	-	-	-	44,156	
Other liabilities - acceptances and interest and profit payable	17	136,171	-	-	-	136,171	

35 ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of financial assets and financial liabilities.

Loans & advances and financing

The fair value of loans & advances and financings receivables is estimated at the present value of future cash flows, discounted at the market value of interest at the reporting date. These financial assets fall under level 3 category of fair value hierarchy levels. Carrying value of loans and advances & financing are considered to approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

35 ESTIMATION OF FAIR VALUES *(Continued)*

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

Current account balances due to and due from banks

The carrying values of current account balances due to and due from banks is considered to be a reasonable estimate of fair value due to their short term in nature.

Other financial instruments

The fair value of all on balance sheet financial instruments are considered to approximate their book values.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included under other assets and other liabilities.

ESTIMATION OF FAIR VALUES *(continued)*

Level 1 - Quoted prices (unadjusted) in active markets.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table shows an analysis of financial instruments other than derivative instruments recorded at fair value by level of the fair value hierarchy.

	31 December 2020			31 December 2019		
	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets:						
Investments at FVTPL	697	-	697	470	-	470
Investments at FVOCI	61,053	244,618	305,671	40,383	217,295	257,678
<i>Derivative financial instruments</i>						
Interest rate swaps	-	849	849	-	137	137
Forward foreign exchange contracts	1,813	-	1,813	844	-	844
	<u>63,563</u>	<u>245,467</u>	<u>309,030</u>	<u>41,697</u>	<u>217,432</u>	<u>259,129</u>
Financial liabilities						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	5,890	5,890	-	1,873	1,873
Forward foreign exchange contracts	98	-	98	122	-	122
	<u>98</u>	<u>5,890</u>	<u>5,988</u>	<u>122</u>	<u>1,873</u>	<u>1,995</u>
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investments at FVTPL	1,810	-	1,810	1,221	-	1,221
Investments at FVOCI	158,579	635,372	793,951	104,891	564,402	669,293
<i>Derivative financial instruments</i>						
Interest rate swaps	-	2,205	2,205	-	356	356
Forward foreign exchange contracts	4,709	-	4,709	2,192	-	2,192
	<u>165,098</u>	<u>637,577</u>	<u>802,675</u>	<u>108,304</u>	<u>564,758</u>	<u>673,062</u>
Financial liabilities						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	15,299	15,299	-	4,865	4,865
Forward foreign exchange contracts	255	-	255	317	-	317
	<u>255</u>	<u>15,299</u>	<u>15,554</u>	<u>317</u>	<u>4,865</u>	<u>5,182</u>

There are no transfers between levels of fair value measurement hierarchy during the years 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments.

Derivative product types

Swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Forward contracts are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forward contracts are customised contracts transacted over the counter.

Derivatives held for hedging purposes

Fixed interest rates on principal amount of loans and investments are normally hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges since inception.

Derivatives held for risk management purposes

The Bank has entered into interest rate swaps and forward contracts for risk management purposes which are not closed out prior to contractual maturity. The Bank ensures that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a USD LIBOR interest rate (for the impact of IBOR reform on hedge accounting, see below). Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to RO 31.888 million (2019: RO 29.722 million) equivalent to US\$ 82.825 million (2019: 77.200 million). These hedged items comprise of debt instruments which are held as FVOCI.

Cash flow hedge

The Bank has uses interest rate swaps to hedge the cash flow volatility risk on its borrowed funds and uses pay fixed/receive floating interest rate in respect of USD LIBOR interest rate.(for the impact of IBOR reform on hedge accounting, see below). The Bank hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate notes to mitigate variability in its cash flows. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.The carrying amount of the hedged items is included in the line item "Borrowed funds" on the statement of financial position with the notional amount totalling to RO 98.175 million (2019: RO 57.750 million) equivalent to US\$ 255 million (2019: US\$ 150 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING *(continued)*

Interest rate benchmark reform (IBOR reform)

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (LIBORs) with alternative nearly risk-free rates (referred to as 'LIBOR reform'). The Bank's LIBOR exposures are primarily in USD LIBOR. The alternative reference rate for USD LIBOR is the Secured Overnight Financing Rate (SOFR). USD LIBOR is planned to be discontinued by the end of year 2021.

The Bank is managing the transition to new benchmark rates for affected financial assets and financial liabilities by actively reviewing existing contracts indexed to LIBOR to ensure appropriate fallback provisions is contained in all contracts. The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers and updating of contractual terms related to the reform. Financial risk is predominantly limited to interest rate risk, the impact of which is a result of basis risk due to uncertainty around timing difference between transitioning of USD assets and USD liabilities. Although it is too early to predict the exact financial impact the transition will have, based on Bank's internal assessment, it is expected that the impact will not be material.

I. Non-derivative financial assets and loan commitments

The Bank is managing the transition to new benchmark rates for affected financial assets by actively reviewing existing contracts indexed to LIBOR to ensure appropriate fallback provisions is contained in all contracts that describes what floating rates will apply on the permanent discontinuation of LIBOR. While the Bank has exposures to bilateral and syndicated loans denominated in USD that reference USD LIBOR, in regards to its investment portfolio denominated in USD, the Bank's portfolio only contains fixed rate bonds that are not impacted by the LIBOR transition. The following tables show the total amounts of financial assets that are impacted by the LIBOR reform as of 31 December 2020. The amounts are shown at gross carrying value.

Exposure beyond Year 2021 US\$'000	As at 31 December 2020 US\$'000		As at 31 December 2020 RO'000s	Exposure beyond Year 2021 RO'000s
		USD LIBOR		
493,678	975,382	Loans and advances	375,522	190,066

II. Non-derivative financial liabilities

The Bank has floating-rate bilateral borrowings indexed to USD LIBOR that are expected to be impacted by LIBOR reforms. The Bank is reviewing the adequacy of fallback provisions in relevant contracts to ensure appropriate floating rates is described on the permanent discontinuation of LIBOR. For contracts that lack appropriate fall-back language, the Bank plans to negotiate with the counterparties to bilaterally agree on inclusion of new fallback clauses.

The following tables show the total amounts of financial liabilities that are impacted by the LIBOR reform as of 31 December 2020. The amounts are shown as gross carrying value.

Exposure beyond Year 2021 US\$'000	As at 31 December 2020 US\$'000		As at 31 December 2020 RO'000s	Exposure beyond Year 2021 RO'000s
		USD LIBOR		
340,000	415,000	Bilateral borrowings	159,775	130,900

III. Derivatives and hedge accounting

The Bank has entered into Interest Rate Swaps for hedging purposes whose floating legs are indexed to USD LIBOR and maturity of these contracts extend beyond 2021. The Bank's derivative instruments are governed by ISDA's 2006 definitions.

ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key LIBORs or on ISDA declaring a non-representative determination of a LIBOR. The Bank has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts when the supplement becomes effective – i.e. on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the Bank is monitoring whether its counterparties will also adhere to the protocol and, if there are counterparties that will not, then the Bank plans to negotiate with them bilaterally about inclusion of new fallback clauses.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING *(continued)*

The following tables show the total amounts of derivatives that are impacted by the LIBOR reform as of 31 December 2020. The amounts are shown as notional amounts.

Exposure beyond Year 2021 US\$'000	As at 31 December 2020 US\$'000		As at 31 December 2020 RO'000s	Exposure beyond Year 2021 RO'000s
USD LIBOR				
535,922	535,922	Interest rate swaps - notional value	206,330	206,330

The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity.

	Assets RO '000	Liabilities RO '000	Nominal cash flows by term to maturity			
			Notional cash flows RO '000	Within 3 months RO '000	3 to 12 months RO '000	Over 1 year RO '000
At 31 December 2020						
<i>Derivatives for hedging:</i>						
Interest rate swaps						
-Fair value hedge	849	4,090	(3,241)	(183)	(524)	(2,534)
-Cash flow hedge	-	1,800	(1,800)	(291)	(948)	(561)
Derivatives:						
Forward purchase contracts	-	98	212,029	194,616	14,030	3,383
Forward sales contracts	1,813	-	213,744	195,596	14,609	3,539
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	2,205	10,624	(8,418)	(475)	(1,361)	(6,582)
-Cash flow hedge	-	4,675	(4,675)	(756)	(2,462)	(1,457)
Derivatives:						
Forward purchase contracts	-	255	550,725	505,496	36,442	8,787
Forward sales contracts	4,709	-	555,179	508,042	37,945	9,192
At 31 December 2019	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Derivatives for hedging:</i>						
Interest rate swaps						
-Fair value hedge	137	1,691	(1,554)	173	(226)	(1,501)
-Cash flow hedge	-	182	(182)	(152)	(47)	17
<i>Derivatives:</i>						
Forward purchase contracts	-	122	169,662	131,695	30,103	7,864
Forward sales contracts	844	-	168,940	131,389	29,851	7,700
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
<i>Derivatives for hedging:</i>						
Interest rate swaps						
-Fair value hedge	356	4,392	(4,036)	450	(586)	(3,900)
-Cash flow hedge	-	473	(473)	(396)	(122)	45
<i>Derivatives:</i>						
Forward purchase contracts	-	317	440,681	342,065	78,190	20,426
Forward sales contracts	2,192	-	438,805	341,270	77,535	20,000

Fair values are included under other assets where positive and other liabilities where negative.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

- ~ Credit risk
- ~ Liquidity risk
- ~ Market risk
- ~ Operational risk

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has approved the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate limits and controls and to monitor risks and adherence to the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

Executive Risk Committee of the Board under the oversight of the Board is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Executive Risk Committee of the Board is assisted in these functions by the Risk Management Department. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

Outbreak of Coronavirus and measures taken by the Bank

The Bank has carried out various counter measures to ensure that people, systems, processes businesses are safeguarded at all times during this pandemic along with management of credit, liquidity and operational risk. These countermeasures included the following;

- ~ Intensified and continuous credit monitoring, especially in relation to most affected sectors
- ~ Estimated and accounted for ECL in relation to management overlays/ post model adjustments
- ~ Generated different GDP and PDs (For affected sector customers) scenarios during 2020 to calculate management overlays/ post model adjustments
- ~ Deferrals were provided to mostly all customers who requested with few rejections
- ~ Additional ECL in the form of overlays for other matters such as declining collateral value
- ~ Scenario weightages were also revisited and revised during the year 2020
- ~ Rigorous monitoring of key liquidity metrics and forecasts
- ~ Activation of the Crisis Management Team (CMT) of the Bank
- ~ The Bank has compiled a user manual namely "Shutdown Scenario Process Manual" wherein procedures for all critical functions of the Bank have been included to facilitate the smooth functioning of the critical services offered by the Bank in a possible scenario of partial / complete lockdown
- ~ Working from home and splitting teams amongst many other measure to ensure business continuity
- ~ Taken various preventive measures to mitigate cyber security risk
- ~ Keeping employees and customers aware of potential cyber threats resulting from the current pandemic situation
- ~ Ensured that Bank continues to be adequately covered for any unforeseen cyber related frauds
- ~ Continuous monitoring impacts of pandemic on financial position and capital of the Bank

37.1 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 and arises principally from the Bank's loans & advances and financing to customers, due from banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.1 Management of credit risk

The Board has delegated responsibility for the monitoring of credit risk to its Executive Risk Committee. A separate Risk Management Department, reporting to the chairman of the Executive Risk Committee, is responsible for the following:

- formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk. The Board's Executive Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans & advances and financing), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks;
- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring to be within the single obligor limit and also within the concentration risk limit for various sectors, which are continuously monitored; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Board. Business units have their counter parts in risk management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit Department.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary take out for the loans & advances and financing extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the borrowers account with the Bank. To cover unforeseen risks, which dry up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans & advances and financing are:

- mortgages over properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equity securities.

Longer-term finance and lending to corporate borrowers are generally secured; revolving individual credit facilities are generally unsecured from a collateral perspective, whereas credit risk is primarily mitigated through capture of business cash flows. In addition, in order to minimise the credit loss, the Bank seeks additional collateral from the borrower as soon as impairment indicators are noticed for the relevant individual loans & advances and financing. Collateral held as security for financial assets other than loans & advances and financing, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured other than certain assets where hedging strategy is considered.

All loans & advances and financing of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans & advances and financing are classified into 6 broad classification categories: High standard, Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. Further, as mandated by IFRS 9, the loans & advances and financing, due from banks and investment debt securities are classified into stage 1, stage 2 and stage 3 based on criteria established by the Bank in line with the requirements of CBO circular BM 1149.

37.1.2 Credit risk measurement

(a) Loans and advances (including Loan commitments and guarantees)

Corporate and SME credit

Risk department is responsible for independent assessment and control of risks related to all corporate and Small and Medium Enterprise exposures. The credit risk associated with corporate loans is assessed based on analysis of customer and the industry in which it operates. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit reviews. The department reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews are also subject to same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, grades etc, and deviations, if any are highlighted. The Bank has implemented a customised Moody's Risk Analyst model for risk rating of corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.2 Credit risk measurement *(continued)*

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers and public exposures. The Bank undertakes sector review of its exposure to real estate, construction, healthcare etc. A comprehensive review of the corporate credit portfolio is conducted on regular basis and provided to the executive management and Risk committee. The salient areas covered in the review include:

- Exposures downgraded / negatively migrated.
- Portfolio concentration / performance.
- Position of restructured exposures.
- Position of past due exposures.
- Syndicated exposures.
- Exposure to countries / financial institutions.

Retail credit

Retail credit department manages the credit risk in retail portfolio. Credit facilities are offered to retail customers primarily based on product programmes approved by Risk committee. The retail credit book is classified into performing and non performing loans at monthly intervals. The risk department shall prepare a list of classified accounts based on the risk rating policy of the Bank. A review of retail credit portfolio is conducted on half yearly basis and provided to the board sub committees. Salient areas covered in the review include:

- Portfolio quality
- NPA trends
- Identifying the delinquency factors.
- Recommendations for improving portfolio quality.

Loan review mechanism

Loan Review Mechanism (LRM) is an effective tool for constantly evaluating the quality of loan portfolio and to assist in improving the credit administration quality. As mandated by CBO, the Bank has put in place a proper LRM, addressing the high value accounts taking into consideration qualitative criteria such as restructured accounts, risk ratings, high risk sectors like real estate, etc. The bank has an independent loan review division whose objective is to improve the quality of bank assets and to identify any potential deterioration in the book / asset quality. Moreover, the division evaluates the effectiveness and efficiency of credit approval process, review of credit assessment, evaluate portfolio quality etc.

(b) Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade. The ratings will also assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite will also be set in terms of how much of exposure the Bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

Credit quality rating	Risk Rating(RR)	Classification
High Standard	RR1 to RR4	Not credit impaired on initial recognition- classified under 'Stage 1'.
Standard	RR5 to RR6	
Special Mention	RR7	Identified SICR since initial recognition but is not deemed to be credit impaired- Classified under 'Stage 2'.
Non performing	RR8 to RR10	Credit impaired- Classified under 'Stage 3'.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 Exposure to credit risk

The following table contains an analysis of gross carrying amount financial assets / off balance sheet items by credit risk grading wise measured at amortised cost.

	2020			Total RO '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	
Loans and advances & financing				
Performing loans (Risk rating 1-6)	1,769,171	296,565	-	2,065,736
Special mention loans (Risk rating 7)	-	145,359	-	145,359
Non performing loans (Risk rating 8-10)	-	-	66,402	66,402
Gross carrying amount (RO'000)	1,769,171	441,924	66,402	2,277,497
Gross carrying amount (US\$'000)	4,595,249	1,147,855	172,473	5,915,577
Loss allowance (RO'000)	8,315	18,491	31,794	58,600
Loss allowance (US\$'000)	21,597	48,029	82,582	152,208
Total loans and advances & financing, net (RO'000)	1,760,856	423,433	34,608	2,218,897
Total loans and advances & financing, net (US\$'000)	4,573,652	1,099,826	89,891	5,763,369
Corporate Loans and advances & financing				
Performing loans (Risk rating 1-6)	1,048,100	292,409	-	1,340,509
Special mention loans (Risk rating 7)	-	141,340	-	141,340
Non performing loans (Risk rating 8-10)	-	-	46,160	46,160
Gross carrying amount (RO'000)	1,048,100	433,749	46,160	1,528,009
Gross carrying amount (US\$'000)	2,722,338	1,126,620	119,897	3,968,855
Loss allowance (RO'000)	6,451	16,388	18,004	40,843
Loss allowance (US\$'000)	16,756	42,566	46,764	106,086

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 EXPOSURE TO CREDIT RISK *(Continued)*

	2020			Total RO '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	
Retail Loans and advances & financing				
Performing loans (Risk rating 1-6)	721,071	4,156	-	725,227
Special mention loans (Risk rating 7)	-	4,019	-	4,019
Non performing loans (Risk rating 8-10)	-	-	20,242	20,242
Gross carrying amount (RO'000)	721,071	8,175	20,242	749,488
Gross carrying amount (US\$'000)	1,872,912	21,234	52,576	1,946,722
Loss allowance (RO'000)	1,864	2,103	13,790	17,757
Loss allowance (US\$'000)	4,842	5,462	35,818	46,122
Credit related contingent items				
Performing grades (Risk rating 1-6)	185,532	44,691	-	230,223
Special mention grades (Risk rating 7)	-	7,830	-	7,830
Gross carrying amount (RO'000)	185,532	52,521	-	238,053
Gross carrying amount (US\$'000)	481,901	136,418	-	618,319
Loss allowance (RO'000)	374	1,014	-	1,388
Loss allowance (US\$'000)	971	2,634	-	3,605
Due from banks (including balances with CBO)				
Performing banks (rated)	105,318	-	-	105,318
Performing banks (unrated)	-	-	-	-
Gross carrying amount (RO'000)	105,318	-	-	105,318
Gross carrying amount (US\$'000)	273,553	-	-	273,553
Loss allowance (RO'000)	124	-	-	124
Loss allowance (US\$'000)	322	-	-	322
Investment securities				
Performing grades (Risk rating 1-6)	301,162	-	-	301,162
Gross carrying amount (RO'000)	301,162	-	-	301,162
Gross carrying amount (US\$'000)	782,239	-	-	782,239
Loss allowance (RO'000)	52	-	-	52
Loss allowance (US\$'000)	134	-	-	134
Other assets				
Performing grades (Risk rating 1-6)	19,046	-	-	19,046
Special mention grades (Risk rating 7)	-	1,709	-	1,709
Gross carrying amount (RO'000)	19,046	1,709	-	20,755
Gross carrying amount (US\$'000)	49,470	4,439	-	53,909
Loss allowance (RO'000)	34	5	-	39
Loss allowance (US\$'000)	88	13	-	101

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 EXPOSURE TO CREDIT RISK *(Continued)*

	2019			
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Loans and advances & financing				
Performing loans (Risk rating 1-6)	1,680,824	247,486	-	1,928,310
Special mention loans (Risk rating 7)	3,322	128,445	-	131,767
Non performing loans (Risk rating 8-10)	-	-	36,438	36,438
Gross carrying amount (RO'000)	1,684,146	375,931	36,438	2,096,515
Gross carrying amount (US\$'000)	4,374,405	976,444	94,644	5,445,494
Loss allowance (RO'000)	6,116	14,599	20,814	41,529
Loss allowance (US\$'000)	15,886	37,919	54,063	107,868
Total loans and advances & financing, net (RO'000)	1,678,030	361,332	15,624	2,054,986
Total loans and advances & financing, net (US\$'000)	4,358,519	938,525	40,582	5,337,626
Corporate Loans and advances & financing				
Performing loans (Risk rating 1-6)	982,711	242,494	-	1,225,205
Special mention loans (Risk rating 7)	3,322	122,630	-	125,952
Non performing loans (Risk rating 8-10)	-	-	17,117	17,117
Gross carrying amount (RO'000)	986,033	365,124	17,117	1,368,274
Gross carrying amount (US\$'000)	2,561,125	948,374	44,460	3,553,959
Loss allowance (RO'000)	4,416	12,049	8,994	25,459
Loss allowance (US\$'000)	11,470	31,296	23,362	66,128
Retail Loans and advances & financing				
Performing loans (Risk rating 1-6)	698,113	4,992	-	703,105
Special mention loans (Risk rating 7)	-	5,815	-	5,815
Non performing loans (Risk rating 8-10)	-	-	19,321	19,321
Gross carrying amount (RO'000)	698,113	10,807	19,321	728,241
Gross carrying amount (US\$'000)	1,813,281	28,070	50,184	1,891,535
Loss allowance (RO'000)	1,700	2,550	11,820	16,070
Loss allowance (US\$'000)	4,416	6,623	30,701	41,740
Credit related contingent items				
Performing grades (Risk rating 1-6)	224,962	56,770	-	281,732
Special mention grades (Risk rating 7)	290	7,430	-	7,720
Gross carrying amount (RO'000)	225,252	64,200	-	289,452
Gross carrying amount (US\$'000)	585,070	166,753	-	751,823
Loss allowance (RO'000)	238	858	-	1,096
Loss allowance (US\$'000)	618	2,229	-	2,847

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 EXPOSURE TO CREDIT RISK *(Continued)*

	2019			Total RO '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	
Due from banks (including balances with CBO)				
Performing banks (rated)	143,189	-	-	143,189
Performing banks (unrated)				-
Gross carrying amount (RO'000)	143,189	-	-	143,189
Gross carrying amount (US\$'000)	371,919	-	-	371,919
Loss allowance (RO'000)	3	-	-	3
Loss allowance (US\$'000)	8	-	-	8
Investment securities				
Performing grades (Risk rating 1-6)	252,634	-	-	252,634
Gross carrying amount (RO'000)	252,634	-	-	252,634
Gross carrying amount (US\$'000)	656,193	-	-	656,193
Loss allowance (RO'000)	27	-	-	27
Loss allowance (US\$'000)	70	-	-	70
Other assets				
Performing grades (Risk rating 1-6)	11,708	-	-	11,708
Special mention grades (Risk rating 7)	-	6,843	-	6,843
Gross carrying amount (RO'000)	11,708	6,843	-	18,551
Gross carrying amount (US\$'000)	30,411	17,774	-	48,184
Loss allowance (RO'000)	2	9	-	11
Loss allowance (US\$'000)	4	25	-	29

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 EXPOSURE TO CREDIT RISK *(Continued)*

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups / industries. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored and reviewed periodically by the Executive & Credit committee.

Maximum exposure to credit risk before collateral held or other credit enhancements

Net maximum exposure	Gross maximum exposure	Net maximum exposure	Gross maximum exposure		Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
2019	2019	2020	2020		2020	2020	2019	2019
US\$ '000	US\$ '000	US\$ '000	US\$ '000		RO '000	RO '000	RO '000	RO '000
				Balances with Central Bank of Oman				
242,688	242,688	167,341	167,341		64,426	64,426	93,435	93,435
130,595	130,595	120,254	120,254	Due from banks	46,298	46,298	50,279	50,279
2,171,161	5,445,494	1,231,717	5,915,577	Loans & advances and financing	2,277,497	474,211	2,096,515	835,897
1,112,434	3,553,959	682,042	3,968,855	-Corporate	1,528,009	262,586	1,368,274	428,287
1,058,727	1,891,535	549,675	1,946,722	-Retail	749,488	211,625	728,241	407,610
670,514	670,514	795,761	795,761	Investment securities	306,368	306,368	258,148	258,148
48,184	48,184	53,909	53,909	Other assets	20,755	20,755	18,551	18,551
356	356	2,205	2,205	Derivative financial instruments	849	849	137	137
3,263,498	6,537,831	2,371,187	7,055,047	Total on balance sheet exposure	2,716,193	912,907	2,517,065	1,256,447
171,307	171,307	126,922	126,922	Loan & capital commitments	48,865	48,865	65,953	65,953
252,365	583,205	370,390	495,774	Financial guarantees and letters of credit	190,873	142,600	224,534	97,161
423,672	754,512	497,312	622,696	Total off balance sheet exposure	239,738	191,465	290,487	163,114
3,687,170	7,292,343	2,868,499	7,677,743	Grand total	2,955,931	1,104,372	2,807,552	1,419,561

The above table represents the maximum credit risk exposure to the Bank at 31 December 2020 and 2019 without taking into account the collateral held or other credit enhancements. Management is confident that the bank has suitable policies to measure and control the credit risk. In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

37.1.4 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines regarding the acceptability of types of collateral and valuation parameters. The principal collateral types for loans and advances & financing are as follows:

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since last year. There are no repossessed assets held by the Bank as at the balance sheet date.

The fair value of collateral that the bank holds relating to loans and advances & financing that are credit impaired at the reporting date as at 31 December 2020 was RO 19.452 million equivalent to US\$ 50.525 million (2019: RO 8.993 million equivalent to US\$ 23.358 million). Loans and advances & financing with collateral amounting RO 1,851.599 million equivalent to US\$ 4,809.245 million (2019: RO 826.904 million equivalent to US\$ 2147.800 million) where the Bank has not recognized any loss.

37.1.5 Modification of loans

In line with the CBO circular issued during the year, the Bank has accepted request for deferments and waivers during the year. In case of corporate customers, the Bank has accrued the interest during the deferral period to the principal outstanding and either extended the original maturity period of the loan and/or increased the installments at the end of the deferral period. In case of Retail customers, the Bank has extended the maturity of the loan without changing installments.

As per Bank assessment, to be no de-recognition of the loans happened based on the deferral granted as the deferral is for a short term period and revised terms are not substantially different from the original terms. However, these deferrals have resulted in the Bank recognising a modification loss of RO 0.073 million (equivalent to US\$ 0.189 million) during the year, which was presented as part of net financing.

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans and advances and financings of the customers, who have been provided with such benefits and the related ECL:

	Stage 1	Stage 2	Total	Total
	RO '000	RO '000	RO '000	US\$ '000
Loans & advances and financing	764,487	372,782	1,137,269	2,953,945
Off balance sheet	6,323	2,137	8,460	21,974
Total Exposure	770,810	374,919	1,145,729	2,975,919
Total Impairment	3,137	12,868	16,005	41,571

37.1.6 Loans written off / recovery based on enforcement activity

The Bank has made certain technical write off of loans & advances that are still subject to enforcement activity. The contractual amount outstanding that were technically written off as at year end 31 December 2019 was RO 5.223 million (2019: RO 5.894 million) equivalent to US\$ 13.567 million (2019: US\$ 15.310 million). The Bank still seeks to recover amounts it is legally owned in full, but has been technically written off due to no reasonable expectation of full recovery.

37.1.7 Expected credit loss (ECL) measurement

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. The Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

Measuring ECL-Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12MPD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amount the bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure of collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12 months PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

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

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

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

Stage 3 Financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Generating the term structure of probability of default (PD)

Risk ratings are the primary input into determination of PD term structure for credit exposures. Default and performing information is collected for each credit exposure and analysed by borrower and respective risk rating. Statistical models are utilized to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

ECL exposure of financial assets and off-balance sheet

The following table contains an analysis of stagewise reconciliation of gross carrying amount/ loss allowance from the opening to the closing balance of financial assets / off balance sheet items by class of financial instrument.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in gross carrying amount

	Stage 1	Stage 2	2020 Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Loans & advances and financing at amortised cost					
Balance at 1 January	1,684,146	375,931	36,438	2,096,515	5,445,494
Transfer between stages					
- Transfer to Stage 1	82,986	(81,566)	(1,420)	-	-
- Transfer to Stage 2	(148,672)	148,718	(46)	-	-
- Transfer to Stage 3	(505)	(28,120)	28,625	-	-
Re-measurement of outstanding	53,414	44,209	3,197	100,820	261,870
Financial assets originated during the period	169,154	-	-	169,154	439,361
Financial assets matured during the period	(71,352)	(17,248)	(355)	(88,955)	(231,052)
Write off	-	-	(37)	(37)	(96)
Balance at 31 December	1,769,171	441,924	66,402	2,277,497	5,915,577
Corporate Loans & advances and financing at amortised cost					
Balance at 1 January	986,033	365,124	17,117	1,368,274	3,553,959
Transfer between stages					
- Transfer to Stage 1	75,260	(75,260)	-	-	-
- Transfer to Stage 2	(142,003)	142,003	-	-	-
- Transfer to Stage 3	(38)	(26,805)	26,843	-	-
Re-measurement of outstanding	64,561	45,205	2,273	112,039	291,010
Financial assets originated during the period	110,272	-	-	110,272	286,420
Financial assets matured during the period	(45,985)	(16,518)	(73)	(62,576)	(162,535)
Write off	-	-	-	-	-
Balance at 31 December	1,048,100	433,749	46,160	1,528,009	3,968,855
Retail Loans & advances and financing at amortised cost					
Balance at 1 January	698,113	10,807	19,321	728,241	1,891,535
Transfer between stages					
- Transfer to Stage 1	7,726	(6,306)	(1,420)	-	-
- Transfer to Stage 2	(6,669)	6,715	(46)	-	-
- Transfer to Stage 3	(467)	(1,315)	1,782	-	-
Re-measurement of outstanding	(11,147)	(996)	924	(11,219)	(29,140)
Financial assets originated during the period	58,882	-	-	58,882	152,940
Financial assets matured during the period	(25,367)	(730)	(282)	(26,379)	(68,517)
Write off	-	-	(37)	(37)	(96)
Balance at 31 December	721,071	8,175	20,242	749,488	1,946,722

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in gross carrying amount *(continued)*

	2020			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Debt investment securities at FVOCI					
Balance at 1 January	252,634	-	-	252,634	656,193
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	48,528	-	-	48,528	126,046
Financial assets matured during the period	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	301,162	-	-	301,162	782,239
Other financial assets at amortised cost					
Balance at 1 January	154,897	6,843	-	161,740	420,103
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	6,048	(6,048)	-	-	-
- Transfer to Stage 2	(1,682)	1,682	-	-	-
- Transfer to Stage 3	17,265	(17,265)	-	-	-
Financial assets originated during the period	(52,164)	16,497	-	(35,667)	(92,641)
Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	124,364	1,709	-	126,073	327,462
Off balance sheet items at amortised cost					
Balance at 1 January	225,252	64,200	-	289,452	751,823
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	19,022	(19,022)	-	-	-
- Transfer to Stage 2	(9,400)	9,400	-	-	-
- Transfer to Stage 3	49,168	-	-	49,168	127,709
Financial assets originated during the period	(98,510)	(2,057)	-	(100,567)	(261,213)
Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	185,532	52,521	-	238,053	618,319

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in gross carrying amount *(continued)*

	2019				
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Loans and advances & financing at amortised cost					
Balance at 1 January	1,706,131	166,149	32,815	1,905,095	4,948,298
Transfer between stages					
- Transfer to Stage 1	52,600	(49,713)	(2,887)	-	-
- Transfer to Stage 2	(253,874)	254,241	(367)	-	-
- Transfer to Stage 3	(4,918)	(4,767)	9,685	-	-
Re-measurement of outstanding	75,479	13,980	1,766	91,225	236,947
Financial assets originated during the period	221,443	-	-	221,443	575,178
Financial assets matured during the period	(112,715)	(3,959)	(4,540)	(121,214)	(314,841)
Write off	-	-	(34)	(34)	(88)
Balance at 31 December	1,684,146	375,931	36,438	2,096,515	5,445,494
Corporate Loans and advances & financing at amortised cost					
Balance at 1 January	1,060,875	156,498	16,627	1,234,000	3,205,194
Transfer between stages					
- Transfer to Stage 1	45,967	(44,601)	(1,366)	-	-
- Transfer to Stage 2	(246,495)	246,495	-	-	-
- Transfer to Stage 3	(2,312)	(2,902)	5,214	-	-
Re-measurement of outstanding	98,024	13,294	852	112,170	291,352
Financial assets originated during the period	116,996	-	-	116,996	303,886
Financial assets matured during the period	(87,022)	(3,660)	(4,210)	(94,892)	(246,473)
Write off	-	-	-	-	-
Balance at 31 December	986,033	365,124	17,117	1,368,274	3,553,959
Retail Loans and advances & financing at amortised cost					
Balance at 1 January	645,256	9,651	16,188	671,095	1,743,104
Transfer between stages					
- Transfer to Stage 1	6,587	(5,065)	(1,522)	-	-
- Transfer to Stage 2	(7,379)	7,746	(367)	-	-
- Transfer to Stage 3	(2,560)	(1,911)	4,471	-	-
Re-measurement of outstanding	(22,096)	732	914	(20,450)	(53,117)
Financial assets originated during the period	104,537	-	-	104,537	271,524
Financial assets matured during the period	(26,232)	(346)	(329)	(26,907)	(69,888)
Write off	-	-	(34)	(34)	(88)
Balance at 31 December	698,113	10,807	19,321	728,241	1,891,535

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in gross carrying amount *(continued)*

	2019			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Debt investment securities at FVOCI					
Balance at 1 January	207,851	-	-	207,851	539,873
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	44,783	-	-	44,783	116,320
Financial assets matured during the period	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	252,634	-	-	252,634	656,193
Other financial assets at amortised cost					
Balance at 1 January	173,128	-	-	173,128	449,683
Transfer between stages					
- Transfer to Stage 1	48	(48)	-	-	-
- Transfer to Stage 2	(1,489)	1,489	-	-	-
- Transfer to Stage 3	2,599	(2,599)	-	-	-
Financial assets originated during the period	-	8,001	-	8,001	20,781
Financial assets matured during the period	(19,389)	-	-	(19,389)	(50,361)
	<u>154,897</u>	<u>6,843</u>	-	161,740	420,103
Balance at 31 December					
Off balance sheet items at amortised cost					
Balance at 1 January	299,941	10,264	971	311,176	808,249
Transfer between stages					
- Transfer to Stage 1	3,161	(3,161)	-	-	-
- Transfer to Stage 2	(46,790)	46,790	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	44,237	32,031	-	76,268	198,099
Financial assets matured during the period	(75,297)	(21,724)	(971)	(97,992)	(254,525)
Balance at 31 December	225,252	64,200	-	289,452	751,823

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision

	Stage 1 RO '000	Stage 2 RO '000	2020 Stage 3 RO '000	Total RO '000	Total US\$ '000
Loans & advances and financing at amortised cost					
Balance at 1 January	6,116	14,599	20,814	41,529	107,868
Transfer between stages					
- Transfer to Stage 1	3,800	(2,906)	(894)	-	-
- Transfer to Stage 2	(375)	396	(21)	-	-
- Transfer to Stage 3	(2)	(1,808)	1,810	-	-
Impairment charged to income statement for	(1,224)	8,210	10,085	17,071	44,340
- <i>Re-measurement of impairment allowances</i>	(2,000)	9,058	12,299	19,357	50,279
- <i>Financial assets originated during the period</i>	997	-	-	997	2,589
- <i>Financial assets matured during the period</i>	(221)	(848)	-	(1,069)	(2,777)
Recoveries from impairment for credit losses	-	-	(4,572)	(4,572)	(11,875)
Interest reserve charged to interest income	-	-	3,384	3,384	8,789
Recoveries of reserved interest in interest income	-	-	(992)	(992)	(2,577)
Write off of impairment allowances	-	-	(34)	(34)	(89)
Balance at 31 December	8,315	18,491	31,794	58,600	152,208
Corporate Loans & advances and financing at amortised cost					
Balance at 1 January	4,416	12,049	8,994	25,459	66,128
Transfer between stages					
- Transfer to Stage 1	1,483	(1,483)	-	-	-
- Transfer to Stage 2	(352)	352	-	-	-
- Transfer to Stage 3	-	(1,391)	1,391	-	-
Impairment charged to income statement for	904	6,861	7,619	15,384	39,958
- <i>Re-measurement of impairment allowances</i>	234	7,572	7,223	15,029	39,036
- <i>Financial assets originated during the period</i>	820	-	-	820	2,130
- <i>Financial assets matured during the period</i>	(150)	(711)	-	(861)	(2,236)
Recoveries from impairment for credit losses	-	-	(1,627)	(1,627)	(4,225)
Interest reserve charged to interest income	-	-	2,554	2,554	6,633
Recoveries of reserved interest in interest income	-	-	(531)	(531)	(1,379)
Write off of impairment allowances	-	-	-	-	-
Balance at 31 December	6,451	16,388	18,004	40,843	106,087
Retail Loans & advances and financing at amortised cost					
Balance at 1 January	1,700	2,550	11,820	16,070	41,740
Transfer between stages					
- Transfer to Stage 1	2,317	(1,423)	(894)	-	-
- Transfer to Stage 2	(23)	44	(21)	-	-
- Transfer to Stage 3	(2)	(417)	419	-	-
Impairment charged to income statement for	(2,128)	1,349	2,466	1,688	4,381
- <i>Re-measurement of impairment allowances</i>	(2,234)	1,486	5,076	4,329	11,243
- <i>Financial assets originated during the period</i>	177	-	-	177	460
- <i>Financial assets matured during the period</i>	(71)	(137)	-	(208)	(540)
Recoveries from impairment for credit losses	-	-	(2,945)	(2,945)	(7,650)
Interest reserve charged to interest income	-	-	830	830	2,155
Recoveries of reserved interest in interest income	-	-	(461)	(461)	(1,197)
Write off of impairment allowances	-	-	(34)	(34)	(89)
Balance at 31 December	1,864	2,103	13,790	17,757	46,121

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

	Stage 1 RO '000	Stage 2 RO '000	2020 Stage 3 RO '000	Total RO '000	Total US\$ '000
Debt investment securities at FVOCI					
Balance at 1 January	27	-	-	27	70
Transfer between stages					
- Transfer to Stage 1	-	-	-		
- Transfer to Stage 2	-	-	-		
- Transfer to Stage 3	-	-	-		
Impairment charged to income statement for	25			25	64
- <i>Re-measurement of impairment allowances</i>	25			25	64
- <i>Financial assets originated during the period</i>					
- <i>Financial assets matured during the period</i>					
Balance at 31 December	52	-	-	52	134
Other financial assets at amortised cost					
Balance at 1 January	5	9	-	14	37
Transfer between stages					
- Transfer to Stage 1	6	(6)	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	147	2		149	386
- <i>Re-measurement of impairment allowances</i>	147	2		149	386
- <i>Financial assets originated during the period</i>					
- <i>Financial assets matured during the period</i>					
Balance at 31 December	158	5	-	163	423
Off balance sheet items at amortised cost					
Balance at 1 January	238	858	-	1,096	2,847
Transfer between stages					
- Transfer to Stage 1	16	(16)		-	-
- Transfer to Stage 2	(23)	23		-	-
- Transfer to Stage 3					
Impairment charged to income statement for	143	149	-	292	758
- <i>Re-measurement of impairment allowances</i>	114	143	-	257	668
- <i>Financial assets originated during the period</i>	80	6	-	86	222
- <i>Financial assets matured during the period</i>	(51)	-	-	(51)	(132)
Balance as at 31 December	374	1,014	-	1,388	3,605

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

	Stage 1	Stage 2	2019 Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Loans & advances and financing at Amortised cost					
Balance at 1 January	6,706	10,097	17,615	34,418	89,397
Transfer between stages					
- Transfer to Stage 1	3,796	(2,539)	(1,257)	-	-
- Transfer to Stage 2	(1,474)	1,688	(214)	-	-
- Transfer to Stage 3	(44)	(748)	792	-	-
Impairment charged to income statement for	(2,868)	6,101	3,878	7,111	18,471
- <i>Re-measurement of impairment allowances</i>	(4,078)	6,626	3,878	6,426	16,691
- <i>Financial assets originated during the period</i>	1,687	-	-	1,687	4,382
- <i>Financial assets matured during the period</i>	(477)	(525)	-	(1,002)	(2,601)
Recoveries from impairment for credit losses	-	-	(713)	(713)	(1,853)
Interest reserve charged to interest income	-	-	1,953	1,953	5,073
Recoveries of reserved interest in interest income	-	-	(1,206)	(1,206)	(3,132)
Write off of impairment allowances	-	-	(34)	(34)	(89)
Balance at 31 December	6,116	14,599	20,814	41,529	107,868
Corporate Loans & advances and financing at Amortised cost					
Balance at 1 January	4,856	8,927	7,996	21,779	56,568
Transfer between stages					
- Transfer to Stage 1	2,373	(2,003)	(370)	-	-
- Transfer to Stage 2	(1,436)	1,436	-	-	-
- Transfer to Stage 3	(33)	(455)	488	-	-
Impairment charged to income statement for	(1,344)	4,144	880	3,681	9,560
- <i>Re-measurement of impairment allowances</i>	(2,217)	4,643	882	3,308	8,593
- <i>Financial assets originated during the period</i>	1,227	-	-	1,227	3,187
- <i>Financial assets matured during the period w</i>	(354)	(499)	-	(853)	(2,216)
Recoveries from impairment for credit losses	-	-	(404)	(404)	(1,050)
Interest reserve charged to interest income	-	-	1,221	1,221	3,172
Recoveries of reserved interest in interest income	-	-	(819)	(819)	(2,126)
Write off of impairment allowances	-	-	-	-	-
Balance at 31 December	4,416	12,049	8,994	25,459	66,128
Retail Loans & advances and financing at Amortised cost					
Balance at 1 January	1,850	1,170	9,619	12,639	32,827
Transfer between stages					
- Transfer to Stage 1	1,423	(536)	(887)	-	-
- Transfer to Stage 2	(38)	252	(214)	-	-
- Transfer to Stage 3	(10)	(294)	304	-	-
Impairment charged to income statement for	(1,525)	1,958	2,997	3,430	8,913
- <i>Re-measurement of impairment allowances</i>	(1,860)	1,984	2,997	3,121	8,106
- <i>Financial assets originated during the period</i>	459	-	-	459	1,197
- <i>Financial assets matured during the period</i>	(124)	(26)	-	(150)	(391)
Recoveries from impairment for credit losses	-	-	(310)	(310)	(804)
Interest reserve charged to interest income	-	-	732	732	1,901
Recoveries of reserved interest in interest income	-	-	(388)	(388)	(1,007)
Write off of impairment allowances	-	-	(34)	(34)	(89)
Balance at 31 December	1,700	2,550	11,820	16,070	41,740

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

	Stage 1 RO '000	Stage 2 RO '000	2019 Stage 3 RO '000	Total RO '000	Total US\$ '000
Debt investment securities at FVOCI					
Balance at 1 January	24	-	-	24	62
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	3	-	-	3	8
- <i>Re-measurement of impairment allowances</i>	3	-	-	3	8
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance at 31 December	27	-	-	27	70
Other financial assets at amortised cost					
Balance at 1 January	8	4	-	12	31
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	(3)	3	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	-	2	-	2	6
- <i>Re-measurement of impairment allowances</i>	-	2	-	2	6
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance at 31 December	5	9	-	14	37
Off balance sheet items at amortised cost					
Balance at 1 January	833	142	205	1,180	3,065
Transfer between stages					
- Transfer to Stage 1	(343)	343	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	(251)	372	(205)	(84)	(217)
- <i>Re-measurement of impairment allowances</i>	(381)	373	(205)	(213)	(554)
- <i>Financial assets originated during the period</i>	174	-	-	174	454
- <i>Financial assets matured during the period</i>	(45)	-	-	(45)	(118)
Balance as at 31 December	238	858	-	1,096	2,847

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECLs. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Bank assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default:

- a) Inadequate or unreliable financial and other information such as unviability of financial statements.
- b) Non-cooperation by the borrowers in matters pertaining to documentation
- c) Borrower is the subject of litigation by third parties that may have a significant impact on his financial position.
- d) Frequent changes in senior management
- e) Intra-group transfer of funds without underlying transactions.
- f) Deferment/delay in the date for commencement of commercial operations by more than one year.
- g) A fall of 25 percent or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous years.
- h) Erosion in net worth by more than 20% as compared to the previous year end coupled with an increase in leverage.

Further, the following quantitative guidelines are used to determine the staging of accounts:

1. An account will migrate to stage 2 if any of the changes in rating below are met;
 - For risk ratings 1 – 4: \geq 3 notch downgrade
 - For risk rating 5: 2 notch downgrade
 - For risk rating 6 : 1 notch downgrade
2. An account will also migrate to stage 2 if it is more than 30 days past due
3. An account will also be considered stage 2 if has been placed under special mention as per bank's IFRS 9 staging guidelines

Covid-19 impact on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment was made to measure ECLs at this time. When it was not possible to reflect such information in the models, post-model overlays or adjustments were considered. This is consistent with guidelines issued by CBO during the year.

Additional IFRS 9 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of loan repayment by a borrower may not on its own trigger the counting of 30 DPD or more backstop used to determine SICR or the 90 days past due backstop used to determine default. However, banks shall continue to assess the obligor's likelihood of payment of amount due after the deferment period and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly fairly recognize such risk
- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless banks might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.
- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.
- Banks must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration should be given both to the effects of Covid-19 coupled with oil prices & significant CBO policy measures being undertaken.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Covid-19 impact on the Bank *(continued)*

-Nevertheless, any changes made to ECL estimate and the impact of Covid-19 distress will be subject to very high levels of uncertainty as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied by the banks in their IFRS 9/ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to Covid-19 effect on market prices of collateral and guarantees. However, Banks are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

The Risk department of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

The Bank is fully committed to help its customers through this turbulent period as directed by the CBO. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

Definition of default and cure

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached the advised limit or been advised of a limit smaller than the current amount outstanding without acceptable justification.

In assessing whether the 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 definition of default is largely aligned to CBO regulatory requirements. An instrument is considered to no longer be in default (i.e. to have been cured) when it no longer meets the default criteria in line with requirements of CBO relevant to upgrading of customer from stage 3. Any upgrade is appropriately approved and validated by the internal audit department.

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

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.

In its 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 date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Covid 19 Impact on ECL allowance

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory

guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments (PMA) are needed. PMA and management overlays made in estimating the reported ECL as at 31 December 2020 are set out as follows:

As on the reporting date, collective provision held by the bank through management overlays amounts to 9.47% of total impairment based on latest available PD term structure, macro-economic forecasts and on exposure on certain large sector customer. This is in addition to the existing ECL provision considered on conservative practices to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

PMAs and management overlays:

Given the ever evolving nature of the current health and economic crisis, the Bank's management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2020 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

Hence, based on regulatory and IASB's guidance, as a measure of prudence, wherever necessary, the Bank has applied post model adjustments and management judgment overlays, while computing its ECL with an intention to collectively cover the following;

- Customer, industry, sector specific evolving credit risk and appetite;
- Impact of recent external ratings and resultant change in the PD term structures;
- Impact of Covid-19 & depressed oil prices available in latest forward looking information and;
- mitigating impacts of government support measures to the extent possible

Sensitivity analysis- ECL

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

2020			2020	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	'US\$'000		RO'000	RO'000
	73,790	ECL on non impaired financial assets under IFRS 9	28,409	
(24,040)	49,749	Good scenario - 100% weighted	19,154	(9,255)
3,384	77,174	Base scenario - 100% weighted	29,712	1,303
17,222	91,011	Bad scenario - 100% weighted	35,039	6,630

2019			2019	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	'US\$'000		RO'000	RO'000
	56,758	ECL on non impaired financial assets under IFRS 9	21,852	
(24,541)	32,218	Good scenario - 100% weighted	12,404	(9,448)
7,069	63,827	Base scenario - 100% weighted	24,574	2,722
16,528	73,286	Bad scenario - 100% weighted	28,215	6,363

For computation of ECL, the Bank considers three scenarios ie., Good, base and bad with weightage of 25%, 50% and 25% respectively. In the year 2019, scenario weightages were 25%, 60% and 15% respectively.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Sensitivity analysis- ECL *(continued)*

The Bank carries out assessment on a portfolio basis using internal ratings for corporate and SME portfolio which are estimated on an individual basis with their respective credit risk parameters applied for ECL calculations of the same credit risk ratings and homogeneous segments of the loan portfolio. For retail portfolio similar assessment is made, however the internal ratings are replaced by Days Past Due buckets. The Bank performs an assessment on a portfolio basis for the following types of loans:

- Retail loans
- Corporate/ SMEs loans

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as Corporate/ SME or retail), product type, credit risk rating both at initial recognition and current, term to maturity, collateral, etc. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

37.1.8 Settlement risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other asset as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as it is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

37.1.9 Concentration risk

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.9 Concentration risk *(continued)*

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

	2020			2019		
	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by type						
Corporate	1,528,009	-	29,399	1,368,274	-	21,389
Personal	749,488	-	-	728,241	-	-
Sovereign	-	-	276,732	-	-	236,541
Banks	-	46,298	237	-	50,279	218
Concentration by location						
Oman	2,260,729	28,025	297,324	2,079,747	19,250	198,697
Other GCC countries	849	7,241	1,022	10,100	24,013	1,740
United Kingdom	2,514	323	-	2,303	443	-
United States of America	-	9,049	-	-	5,350	50,035
Others	13,405	1,660	8,022	4,365	1,223	7,676
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Concentration by type						
Corporate	3,968,855	-	76,361	3,553,959	-	55,557
Personal	1,946,722	-	-	1,891,535	-	-
Sovereign	-	-	718,784	-	-	614,392
Banks	-	120,254	616	-	130,595	565
Concentration by location						
Oman	5,872,023	72,792	772,270	5,401,941	50,000	516,096
Other GCC countries	2,205	18,808	2,655	26,233	62,371	4,519
United Kingdom	6,530	839	-	5,982	1,151	-
United States of America	-	23,504	-	-	13,896	129,962
Others	34,819	4,311	20,836	11,338	3,177	19,937

Concentration by location for loans & advances and financing is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of the Bank's gross exposure to relevant segments is provided in note 38.

37.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will face difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

37.2.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Bank through closely monitoring the liquidity gap against the limit fixed.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.2 LIQUIDITY RISK *(continued)*

37.2.1 Management of liquidity risk *(continued)*

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the CBO regulations.

All liquidity policies are subject to review and approval of Board of Directors.

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted by instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO and Executive Risk Committee every month.

As at 31 December 2020, the Bank's ten largest depositors accounted for 37% (31 December 2019: 46%) of its customer deposits with no single maturity representing more than 7% of the customers deposit base.(31 December 2019: 11%)

Covid -19 considerations on liquidity risk

CBO has provided the following liquidity and capital stimulus as part of Covid 19 measures:

- Lending ratio increased by 5% from 87.5% to 92.5%. The additional lending scope to be utilized for lending to productive sector including healthcare services.
- Additional liquidity support at concessional rates by reducing interest rates on Repo operations, discounting of Government Treasury Bills, FX swap and rediscounting of a Bills of Exchange and Promissory notes.
- Tenor for Repo and Swap facilities was increased from existing to a maximum period of 3 & 6 months respectively.
- Maximum limit of the CBO SWAP facility has been increased up to 100% of a bank's net worth and tenor has been extended up to a maximum period of 1 year.

As at the reporting date the liquidity and funding position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

37.2 .2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Bank also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2020 was 92.5% (31 December 2019: 87.5%).

Details of the reported lending ratio for the year are as follows:

	2020	2019
	Lending ratio	Lending ratio
Year end	86.94%	84.81%
Maximum for the year	90.61%	87.12%
Minimum for the year	82.22%	82.27%
Average for the year	87.46%	85.55%

The Bank also monitors Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), calculated in accordance with Basel III framework and guidelines adopted by CBO vide circular BM 1127 and BM 1147. The Bank has also laid down internal limits and are in compliance with the regulatory requirement as at 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.2 LIQUIDITY RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

The following table summarises the maturity profile of the Bank's assets and liabilities as on the reporting date. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

31 DECEMBER 2020	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	78,495	-	-	525	79,020
Due from banks	21,149	25,025	-	-	46,174
Loans & advances and financing, net	449,999	226,125	447,543	1,095,230	2,218,897
Investment securities	231,012	75,356	-	-	306,368
Other assets	26,358	2,796	-	-	29,154
Property and equipment	-	-	-	22,864	22,864
Total assets	807,013	329,302	447,543	1,118,619	2,702,477
Liabilities and equity					
Due to banks	121,239	-	14,005	-	135,244
Customers' deposits	419,292	650,083	574,867	280,412	1,924,654
Borrowed funds	-	28,875	130,900	-	159,775
Taxation	286	-	-	-	286
Other liabilities	37,443	19,634	13,445	11,646	82,168
Subordinated liabilities	-	9,000	3,000	-	12,000
Tier 1 perpetual subordinated bonds	-	-	124,000	-	124,000
Shareholders' funds	-	-	-	264,350	264,350
Total liabilities and equity	578,260	707,592	860,217	556,408	2,702,477
Net liquidity gap	228,753	(378,290)	(412,674)	562,211	-
Off balance sheet items					
Irrecoverable commitments to extend credit	12,952	34,228	-	-	47,180
Financial guarantees and letters of credit	138,807	30,960	20,283	823	190,873
Derivative products	155,165	44,861	171,726	30,993	402,745
Total off balance sheet assets	306,924	110,049	192,009	31,816	640,798
Assets	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	203,883	-	-	1,364	205,247
Due from banks	54,932	65,000	-	-	119,932
Loans & advances and financing, net	1,168,829	587,338	1,162,449	2,844,753	5,763,369
Investment securities	600,031	195,730	-	-	795,761
Property and equipment	-	-	-	59,387	59,387
Other assets	68,462	7,262	-	-	75,724
Total assets	2,096,137	855,330	1,162,449	2,905,504	7,019,420
Liabilities and equity					
Due to banks	314,906	-	36,377	-	351,283
Customers' deposits	1,089,070	1,688,527	1,493,161	728,343	4,999,101
Borrowed funds	-	75,000	340,000	-	415,000
Taxation	743	-	-	-	743
Other liabilities	97,255	50,997	34,922	30,249	213,423
Subordinated liabilities	-	23,377	7,792	-	31,169
Tier 1 perpetual subordinated bonds	-	-	322,078	-	322,078
Shareholders' funds	-	-	-	686,623	686,623
Total liabilities and equity	1,501,974	1,837,901	2,234,330	1,445,215	7,019,420
Net liquidity gap	594,163	(982,571)	(1,071,881)	1,460,289	-
Off balance sheet items					
Irrecoverable commitments to extend credit	33,642	88,903	-	-	122,545
Financial guarantees and letters of credit	360,538	80,416	52,683	2,138	495,774
Derivative products	403,025	116,523	446,041	80,500	1,046,089
Total off balance sheet assets	797,205	285,842	498,724	82,638	1,664,408

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.2 LIQUIDITY RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

	Upto three months or on demand RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
<i>31 December 2019</i>					
<i>Assets</i>					
Cash and balances with Central Bank of Oman	107,967	-	-	525	108,492
Due from banks	50,276	-	-	-	50,276
Loans & advances and financing, net	373,058	171,364	440,242	1,070,322	2,054,986
Investment securities	166,793	55,910	2,495	32,950	258,148
Property and equipment	-	-	-	21,194	21,194
Other assets	23,298	2,133	-	-	25,431
<i>Total assets</i>	<u>721,392</u>	<u>229,407</u>	<u>442,737</u>	<u>1,124,991</u>	<u>2,518,527</u>
<i>Liabilities and equity</i>					
Due to banks	168,080	24,315	5,310	-	197,705
Customers' deposits	347,083	595,477	514,163	255,003	1,711,726
Borrowed funds	-	-	127,050	-	127,050
Taxation	121	-	-	-	121
Other liabilities	39,131	18,231	13,726	4,642	75,730
Subordinated liabilities	-	5,000	12,000	-	17,000
Tier 1 perpetual subordinated bonds	-	-	124,000	-	124,000
Shareholders' funds	-	-	-	265,195	265,195
<i>Total liabilities and equity</i>	<u>554,415</u>	<u>643,023</u>	<u>796,249</u>	<u>524,840</u>	<u>2,518,527</u>
<i>Net liquidity gap</i>	<u>166,977</u>	<u>(413,616)</u>	<u>(353,512)</u>	<u>600,151</u>	<u>-</u>
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	38,560	26,358	-	-	64,918
Financial guarantees and letters of credit	170,360	9,361	44,813	-	224,534
Derivative products	131,708	30,103	89,758	27,143	278,712
<i>Total off balance sheet assets</i>	<u>340,628</u>	<u>65,822</u>	<u>134,571</u>	<u>27,143</u>	<u>568,164</u>
<i>Assets</i>					
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	280,433	-	-	1,364	281,797
Due from banks	130,587	-	-	-	130,587
Loans & advances and financing, net	968,982	445,101	1,143,486	2,780,057	5,337,626
Investment securities	433,229	145,221	6,481	85,583	670,514
Property and equipment	-	-	-	55,049	55,049
Other assets	60,515	5,540	-	-	66,055
<i>Total assets</i>	<u>1,873,746</u>	<u>595,862</u>	<u>1,149,967</u>	<u>2,922,053</u>	<u>6,541,628</u>
<i>Liabilities and equity</i>					
Due to banks	436,572	63,156	13,791	-	513,519
Customers' deposits	901,514	1,546,694	1,335,487	662,347	4,446,042
Borrowed funds	-	-	330,000	-	330,000
Taxation	314	-	-	-	314
Other liabilities	101,639	47,352	35,650	12,060	196,701
Subordinated liabilities	-	12,987	31,169	-	44,156
Tier 1 perpetual subordinated bonds	-	-	322,078	-	322,078
Shareholders' funds	-	-	-	688,818	688,818
<i>Total liabilities and equity</i>	<u>1,440,039</u>	<u>1,670,189</u>	<u>2,068,175</u>	<u>1,363,225</u>	<u>6,541,628</u>
<i>Net liquidity gap</i>	<u>433,707</u>	<u>(1,074,327)</u>	<u>(918,208)</u>	<u>1,558,829</u>	<u>-</u>
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	100,157	68,461	-	-	168,618
Financial guarantees and letters of credit	442,494	24,314	116,397	-	583,205
Derivative products	342,099	78,188	233,138	70,500	723,925
<i>Total off balance sheet assets</i>	<u>884,750</u>	<u>170,963</u>	<u>349,535</u>	<u>70,500</u>	<u>1,475,748</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.2 LIQUIDITY RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

The table below summarizes the maturity profile of the Bank's financial liabilities (including interest) based on expected undiscounted payment obligations.

31 DECEMBER 2020	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	121,239	-	14,005	-	135,244
Customers' deposits	419,292	650,083	574,867	280,412	1,924,654
Borrowed funds	-	28,875	130,900	-	159,775
Subordinated liabilities	-	9,000	3,000	-	12,000
Total liabilities	540,531	687,958	722,772	280,412	2,231,673
Credit related commitments	12,952	34,228	-	-	47,180
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	314,906	-	36,377	-	351,283
Customers' deposits	1,089,070	1,688,527	1,493,161	728,343	4,999,101
Borrowed funds	-	75,000	340,000	-	415,000
Subordinated liabilities	-	23,377	7,792	-	31,169
Total liabilities	1,403,976	1,786,904	1,877,330	728,343	5,796,553
Credit related commitments	33,642	88,904	-	-	122,546

31 December 2019	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	168,655	24,731	5,746	-	199,132
Customers' deposits	348,451	607,216	562,815	295,219	1,813,700
Borrowed funds	-	-	139,865	-	139,865
Subordinated liabilities	-	5,142	13,633	-	18,775
Total liabilities	517,106	637,089	722,059	295,219	2,171,473
Credit related commitments	38,560	26,358	-	-	64,918
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	438,065	64,236	14,925	-	517,226
Customers' deposits	905,068	1,577,184	1,461,857	766,803	4,710,912
Borrowed funds	-	-	363,286	-	363,286
Subordinated liabilities	-	13,356	35,410	-	48,766
Total liabilities	1,343,133	1,654,776	1,875,478	766,803	5,640,190
Credit related commitments	100,157	68,462	-	-	168,619

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return to risk. There are no commodity price risk exposures to the Bank.

37.3.1 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Bank's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Bank through Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management procedures and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested with ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Executive Risk Committee of the Board). The market risk policies are periodically reviewed to keep it up to date with the market developments.

37.3.2 Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by CBO by applying interest rate shock of 200bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 200bps.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.2 Exposure to interest rate risk *(continued)*

	Effective annual interest rate	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
31 DECEMBER 2020							
Assets							
Cash and balances with Central Bank of Oman	1.50%	500	-	-	-	78,520	79,020
Due from banks	2.06%	36,549	9,625	-	-	-	46,174
Loans & advances and financing, net	5.44%	922,352	498,057	331,804	466,684	-	2,218,897
Investment securities	4.12%	75,000	-	75,140	150,928	5,300	306,368
Other assets		-	-	-	-	29,154	29,154
Property and equipment		-	-	-	-	22,864	22,864
Total assets		1,034,401	507,682	406,944	617,612	135,838	2,702,477
Liabilities and equity							
Due to banks	1.17%	135,244	-	-	-	-	135,244
Customers' deposits	3.42%	389,606	729,065	686,255	400	119,328	1,924,654
Borrowed funds	3.32%	159,775	-	-	-	-	159,775
Taxation		286	-	-	-	-	286
Other liabilities		68	-	-	-	82,100	82,168
Subordinated liabilities	5.41%	-	-	-	-	12,000	12,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	124,000	-	-	124,000
Shareholders' funds		-	-	-	-	264,350	264,350
Total liabilities and equity		684,979	729,065	810,255	400	477,778	2,702,477
Total interest rate sensitivity gap		349,422	(221,383)	(403,311)	617,212	(341,940)	-
Cumulative interest rate sensitivity gap		349,422	128,039	(275,272)	341,940	-	-
31 DECEMBER 2020							
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	1,299	-	-	-	203,948	205,247
Due from banks	2.06%	94,932	25,000	-	-	-	119,932
Loans & advances and financing, net	5.44%	2,395,719	1,293,655	861,829	1,212,166	-	5,763,369
Investment securities	4.12%	194,805	-	195,169	392,021	13,766	795,761
Property and equipment		-	-	-	-	59,387	59,387
Other assets		-	-	-	-	75,724	75,724
Total assets		2,686,755	1,318,655	1,056,998	1,604,187	352,825	7,019,420
Liabilities and equity							
Due to banks	1.17%	351,283	-	-	-	-	351,283
Customers' deposits	3.42%	1,011,964	1,893,675	1,782,480	1,039	309,943	4,999,101
Borrowed funds	3.32%	415,000	-	-	-	-	415,000
Taxation		743	-	-	-	-	743
Other liabilities		177	-	-	-	213,246	213,423
Subordinated liabilities	5.41%	-	-	-	-	31,169	31,169
Tier 1 perpetual subordinated bonds	7.50%	-	-	322,078	-	-	322,078
Shareholders' funds		-	-	-	-	686,623	686,623
Total liabilities and equity		1,779,167	1,893,675	2,104,558	1,039	1,240,981	7,019,420
Total interest rate sensitivity gap		907,588	(575,020)	(1,047,560)	1,603,148	(888,156)	-
Cumulative interest rate sensitivity gap		907,588	332,568	(714,992)	888,156	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.2 Exposure to interest rate risk *(continued)*

	Effective annual interest rate	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Non - Sensitive to interest rate	Total
<i>31 DECEMBER 2019</i>							
<i>Assets</i>		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	1.50%	500	-	-	-	107,992	108,492
Due from banks	0.70%	50,276	-	-	-	-	50,276
Loans & advances and financing, net	5.72%	890,997	372,514	322,633	468,842	-	2,054,986
Investment securities	4.07%	50,035	21,134	61,631	119,939	5,409	258,148
Property and equipment		-	-	-	-	21,194	21,194
Other assets		-	-	-	-	25,431	25,431
<i>Total assets</i>		<u>991,808</u>	<u>393,648</u>	<u>384,264</u>	<u>588,781</u>	<u>160,026</u>	<u>2,518,527</u>
<i>Liabilities and equity</i>							
Due to banks	3.80%	168,080	24,315	5,310	-	-	197,705
Customers' deposits	3.35%	263,767	600,931	514,153	400	332,475	1,711,726
Borrowed funds	3.71%	-	-	127,050	-	-	127,050
Taxation		121	-	-	-	-	121
Other liabilities	-	-	2	-	-	75,728	75,730
Subordinated liabilities	4.20%	-	-	-	-	17,000	17,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	124,000	-	-	124,000
Shareholders' funds	-	-	-	-	-	265,195	265,195
<i>Total liabilities and equity</i>		<u>431,968</u>	<u>625,248</u>	<u>770,513</u>	<u>400</u>	<u>690,398</u>	<u>2,518,527</u>
<i>Total interest rate sensitivity gap</i>		<u>559,840</u>	<u>(231,600)</u>	<u>(386,249)</u>	<u>588,381</u>	<u>(530,372)</u>	<u>-</u>
<i>Cumulative interest rate sensitivity gap</i>		<u>559,840</u>	<u>328,240</u>	<u>(58,009)</u>	<u>530,372</u>	<u>-</u>	<u>-</u>
<i>31 December 2019</i>							
<i>Assets</i>		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	1.50%	1,298	-	-	-	280,499	281,797
Due from banks	0.70%	130,587	-	-	-	-	130,587
Loans & advances and financing, net	5.72%	2,314,278	967,569	838,008	1,217,771	-	5,337,626
Investment securities	4.07%	129,960	54,894	160,081	311,530	14,049	670,514
Property and equipment		-	-	-	-	55,049	55,049
Other assets		-	-	-	-	66,055	66,055
<i>Total assets</i>		<u>2,576,123</u>	<u>1,022,463</u>	<u>998,089</u>	<u>1,529,301</u>	<u>415,652</u>	<u>6,541,628</u>
<i>Liabilities and equity</i>							
Due to banks	3.80%	436,571	63,156	13,792	-	-	513,519
Customers' deposits	3.35%	685,109	1,560,860	1,335,462	1,039	863,572	4,446,042
Borrowed funds	3.71%	-	-	330,000	-	-	330,000
Taxation		314	-	-	-	-	314
Other liabilities	-	-	5	-	-	196,696	196,701
Subordinated liabilities	4.20%	-	-	-	-	44,156	44,156
Tier 1 perpetual subordinated bonds	7.50%	-	-	322,078	-	-	322,078
Shareholders' funds		-	-	-	-	688,818	688,818
<i>Total liabilities and equity</i>		<u>1,121,994</u>	<u>1,624,021</u>	<u>2,001,332</u>	<u>1,039</u>	<u>1,793,242</u>	<u>6,541,628</u>
<i>Total interest rate sensitivity gap</i>		<u>1,454,129</u>	<u>(601,558)</u>	<u>(1,003,243)</u>	<u>1,528,262</u>	<u>(1,377,590)</u>	<u>-</u>
<i>Cumulative interest rate sensitivity gap</i>		<u>1,454,129</u>	<u>852,571</u>	<u>(150,672)</u>	<u>1,377,590</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.2 Exposure to interest rate risk *(continued)*

Exposure and sensitivity analysis

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying upto 200 bps interest rate sensitivity. Earning impact of a 200 basis points parallel shift in interest rate is provided below:

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
19,446	20,177	Impact of +200 bps interest rate increase	7,768	7,487
(19,446)	(20,177)	Impact of -200 bps interest rate decrease	(7,768)	(7,487)

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminishment in the market value of individual investment. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Credit Investment Committee and Executive Risk Committee of the Bank. The Bank's investments are governed by an investment policy approved by the Board of Directors. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio of investments is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

37.3.3 Exposure to equity price risk

The Bank's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Bank's local equity portfolio has a correlation to the performance of MSM 30 Index and international equity portfolio for other GCC countries has a correlation with their respective stock market index. The table below shows the changes in fair value +/- 5% in the MSM 30 Index and other GCC countries stock index;

2019	2020	Security as per country	2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
408	434	MSM - Oman +5% impact	167	157
(408)	(434)	MSM - Oman -5% impact	(167)	(157)
187	151	Other GCC countries +5% impact	58	72
(187)	(151)	Other GCC countries -5% impact	(58)	(72)

37.3.4 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Bank also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2020.

The Bank had the following net exposures denominated in foreign currencies:

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
192,813	77,343	US Dollar	29,777	74,233
118	205	Euro	79	46
346	660	UAE Dirham	254	133
424	231	GBP Sterling	89	163
4,052	4,068	Others	1,566	1,560
197,753	82,507		31,765	76,135

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency rates as at 31 December 2020 on net assets is considered negligible.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.4 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix reporting lines
- Ownership, reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill up gradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is complemented by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Compliance Committee and senior management of the Bank. The Bank has a comprehensive Operational Risk Management Framework by which the Bank has put in place Operational Risk Management Policy, Operational Risk Self Assessment (ORSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base.

37.5 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratio in order to support its business and to maximise shareholders value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. During the year, as part of the covid 19 relief measures CBO has lowered the Capital Conservation Buffer (CCB) requirement by 50% from 2.5% to 1.25%. The minimum capital adequacy ratio requirement for the year is reduced to 12.25% including capital conservation buffer of 1.25% (31 December 2019: 13.5% including capital conservation buffer of 2.5%). In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.5 CAPITAL MANAGEMENT *(continued)*

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
607,327	620,893	Common Equity Tier 1 (CET1)	239,044	233,821
322,078	322,078	Additional Tier 1	124,000	124,000
929,405	942,971	Tier 1	363,044	357,821
51,462	58,308	Tier 2	22,448	19,813
980,867	1,001,279	Total regulatory capital	385,492	377,634
		Risk weighted assets		
5,342,338	5,896,920	Credit risk	2,270,314	2,056,800
178,605	188,802	Market risk	72,689	68,763
278,312	305,062	Operational risk	117,449	107,150
5,799,255	6,390,784	Total risk weighted assets	2,460,452	2,232,713
		Capital adequacy ratio		
10.47%	9.72%	CET1 capital expressed as a percentage of total risk-weighted assets	9.72%	10.47%
16.03%	14.76%	Total tier I capital expressed as a percentage of total risk-weighted assets	14.76%	16.03%
0.89%	0.91%	Tier II capital expressed as a percentage of total risk-weighted assets	0.91%	0.89%
16.91%	15.67%	Total regulatory capital expressed as a percentage of total risk-weighted assets	15.67%	16.91%

Covid 19 impact on 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 mentioned above. The impact of above filter on the bank's regulatory capital is 10 bps.

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

38 SEGMENT INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Retail banking includes customers' deposits, unrestricted investment account, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.
- Wholesale banking, treasury and investments include deposits including current accounts, term deposit, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax. Geographical distribution of major assets are provided in note 36.1.9 and all liabilities are originated in Oman.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

38 SEGMENT INFORMATION *(continued)*

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on pool rate, which approximates the cost of the funds.

Segment information is as follows:

	2020			2019		
	Retail banking RO '000	Wholesale banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Wholesale banking, Treasury & Investment RO '000	Total RO '000
Net interest income	17,551	31,299	48,850	16,872	27,863	44,735
Net income from Islamic financing and investments	3,419	7,825	11,244	3,199	9,105	12,304
Net interest income and income from Islamic financing and investments	20,970	39,124	60,094	20,071	36,968	57,039
Fee and commission income, net & Other operating income	1,735	9,667	11,402	1,838	10,872	12,710
Net operating income	22,705	48,791	71,496	21,909	47,840	69,749
Net impairment on financial assets	(1,128)	(13,274)	(14,402)	(2,204)	(3,667)	(5,871)
Operating expenses	(17,330)	(12,765)	(30,095)	(15,823)	(11,826)	(27,649)
Profit before taxation	4,247	22,752	26,999	3,882	32,347	36,229
Tax expense	(477)	(2,554)	(3,031)	(559)	(4,655)	(5,214)
Segment profit for the year	3,770	20,198	23,968	3,323	27,692	31,015
Segment assets	739,286	1,963,191	2,702,477	722,495	1,796,032	2,518,527
Segment liabilities	473,527	1,840,600	2,314,127	297,486	1,831,846	2,129,332
Additions to segments	642	3,637	4,279	779	5,199	5,978
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	45,587	81,296	126,883	43,823	72,371	116,194
Net income from Islamic financing and investments	8,881	20,324	29,205	8,309	23,649	31,958
Net interest income and income from Islamic financing and investments	54,468	101,620	156,088	52,132	96,020	148,152
Fee and commission income, net & Other operating income	4,506	25,109	29,615	4,774	28,239	33,013
Net operating income	58,974	126,729	185,703	56,906	124,259	181,165
Net impairment on financial assets	(2,930)	(34,478)	(37,408)	(5,725)	(9,524)	(15,249)
Operating expenses	(45,013)	(33,155)	(78,168)	(41,099)	(30,715)	(71,814)
Profit before taxation	11,031	59,096	70,127	10,082	84,020	94,102
Tax expense	(1,239)	(6,634)	(7,873)	(1,452)	(12,091)	(13,543)
Segment profit for the year	9,792	52,462	62,254	8,630	71,929	80,559
Segment assets	1,920,223	5,099,197	7,019,420	1,876,610	4,665,018	6,541,628
Segment liabilities	1,229,940	4,780,779	6,010,719	772,691	4,758,041	5,530,732
Additions to segments	1,668	9,447	11,115	2,023	13,504	15,527

39 COMPARATIVE FIGURES

Corresponding figures have been rearranged and reclassified in order to conform with the presentation for the current year for the purpose of comparison and for better presentation. Such reclassifications are not considered material and do not affect previously reported net income or owner's equity.

Report of the independent auditors - pages 82 - 86

ahli islamic Financial Statements

For the year ended 31 December 2020

In the name of Allah, The Beneficent, The Merciful

Ahli Islamic, Ahli Bank SAOG

Shari'a Supervisory Board Report (SSB)

All praise to Allah, and peace be upon His messenger, his family, his companions and those who followed them with until the Day of Judgment.

To the Board of Directors of Ahli Bank SAOG

Assalam Alikum wa Ramat Allah wa Barakatuh

Shari'a Supervisory Board has reviewed the products and the contracts relating to the transactions which were made by Ahli Islamic, Ahli Bank SAOG (the "Bank") during the period (01.01.2020 to 31.12.2020) ended 2020 to ensure that they comply with the *Fatwa* issued by the Board as per Sharia rules and principles.

The Bank's management is responsible for ensuring implementation of resolutions of the Shari'a Supervisory Board and to inform the Board with regard to the operations and the developments, which require issuance of resolutions from the Shari'a Supervisory Board.

The Shari'a Supervisory Board responsibility is to issue *Fatwa* and monitor their implementation based on the Shari'a audit reports for the Bank.

In opinion of the Board:

- The contracts, transactions and dealings entered into by the Bank during the year ended 2020 are in compliance with Shari'a rules and principles.
- The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
- All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
- The calculation of *Zakah* is in compliance with Shari'a rules and principles.

We beg Allah the Almighty to grant us all the success.

Sharia Supervisory Board

Dr. Mohammed Taher Al-Ibrahim (Chairman)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



Dr. Abdul Raouf Abdullah Al-Tobi (Member)



Resolutions issued by SSB during the year 2020

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
Meeting on April 14, 2020 SSB-29-2020	2 (SSB – 29 – 2020)	SSB Deputy Chairman Appointment	The SSB decided that Dr. Mustain Ali Abdul Hameed will be the Deputy Chairman of the SSB.
	3 (SSB – 29– 2020)	Tracker of SSB Resolutions for Implementation	The SSB reviewed the subject tracker of SSB resolutions containing status of implementation of the SSB resolutions which were issued during 2019. The SSB noted the status of implementation of the SSB resolutions and found it satisfactory.
	4 (SSB – 29– 2020)	Shari'a Audit Reports of 4 th Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury	The SSB reviewed the subject Shari'a audit reports. The SSB gave its opinion in the Shari'a audit reports under the column of SSB opinion
	5 (SSB – 29– 2020)	Status of Shari'a Audit Reports of 3 rd Quarter 2019 I. Corporate Banking Shari'a Audit Report II. Retail Banking Shari'a Audit Report	The SSB reviewed the implementation status of the SSB opinion given in the subject Shari'a audit reports for the observations and found it satisfactory.
	6 (SSB – 29– 2020)	Business Proposal for Deferment of Installments and Extension in Financing Period	<p>Proposal to the SSB:</p> <p>With reference to attached CBO Circular BSD/CB/2020/001 dated March 18, 2020 (Point # 3), ahli islamic, Corporate Banking proposes to defer six months' installments (including principal plus profit) under Ijara Muntahiya Bit Tamleek (Ijara MBT) and Diminishing cum Ijara/Forward Ijara based financings upon customer request as business activities have halted in the country due to Covid- 19, which is affecting rental income from the tenants.</p> <p>The SSB Opinion</p> <p>The above-proposed deferment of installments of the customers and extension in the period of financing for an agreed time between the Bank and customers is approved under Ijara MBT and Diminishing Musharaka cum Ijara/Forward Ijara. The attached letter on Amendment of Sectioned Financing Facility (ies) is also approved.</p> <p>In case other business segments such as Retail and SME also need to facilitate any customers under Ijara MBT and Diminishing Musharaka cum Ijara/Forward Ijara with deferment of installments and/or extension of financing period for a period of time then they are also allowed from Shari'a perspective. Here letter on Amendment of Financing Facility (i.e. Addendum to Financing Documents) alongwith schedule of payment should be acknowledged by the customers. However, if reaching the customers physically is not practically possible due to current Covid- 19 situation and big volume of the customers then the Bank should post the letter on Amendment of Financing Facility alongwith revised schedule of payment on customers' address for acknowledgement with disclaimer that the customer may approach the Bank within a reasonable time if there is any objection, otherwise the change will deem accepted. The Bank should apply the change after the notice time.</p> <p>It is recommended that if there is any overdue amount under financing through Ijara MBT and Diminishing Musharaka cum Ijara/Forward Ijara that should be collected separately with zero profit and not as part of the schedule of rentals.</p> <p>The Murabaha based financing installments can be deferred for an agreed time period but with condition that there will not be any change in the total liability of the financing.</p>
	7 (SSB – 29– 2020)	Shari'a Purification of Al Hilal MENA Fund	The SSB reviewed the Shari'a purification report of Al Hilal MENA Fund for year 2019, which was submitted by Sharia Compliance and advised to credit the total amount of Shari'a non-compliant gains OMR 372.502/- into charity account.

Resolutions issued by SSB during the year 2020 *(continued)*

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
SSB meeting on 14.7.2020 SSB-30-2020	2 (SSB-30-2020)	Shari'a Audit Reports of 1st Quarter 2020 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury	The SSB reviewed the subject Shari'a audit reports. The SSB gave its opinion in the Shari'a audit reports under the column of SSB opinion
	3 (SSB-30-2020)	Status of Shari'a Reports I. Shari'a Audit Report of Corporate Banking for 4th Quarter 2019 II. Shari'a Audit Report of Retail Banking for 4th Quarter 2019	The SSB reviewed the implementation status of the SSB opinion given in the subject Shari'a audit reports for the observations and found it satisfactory.
	4 (SSB-30-2019)	Murabaha Query about Including the Direct Expenses in the Murabaha Cost/Financing	The query is about Murabaha sale price determination with consideration of the expenses such as cost of collection or delivery (transportation, labor) of goods to customer, cost of installation of goods etc. which are incurred while arranging the delivery of the Murabaha goods for customer. The SSB approved including the direct expenses in determining sale price of Murabaha with recommendation that such expenses should be disclosed to customer while concluding Murabaha sale
	5 (SSB-30-2020)	Updates in Schedule of Charge	After reviewing the proposed charges for the respective services, the SSB has approved them with recommendation that the Bank should ensure to communicate the customers the applicable charges before implementing them through all possible means and as per terms and conditions. Note: The updated SOC is available in the branches.
	6 (SSB-30-2020)	Ladies Account Product Paper	The SSB reviewed the product paper and approved it.
	8 (SSB-30-2020)	Corporate Internet Application Form 1. Corporate Internet Banking Application Form Annexure 2. Corporate Internet Terms and Conditions	The SSB reviewed the product paper and approved them.
	9 (SSB-30-2020)	Al Qimmah Wakala Call Account Product Proposal	The SSB reviewed the Al Qimmah Wakala Call Account Product proposal and approved it.
	10 (SSB-30-2020)	Risk Management Policies I. Business Continuity Management II. Operational Risk Management Framework III. Operational Risk Management Policy	The SSB reviewed the Risk Management Polices listed in the subject and approved them.
	11 (SSB-30-2020)	BancaTakaful Documents (Al Madina Takaful) 1. BancaTakaful Management Agreement 2. Application Form 3. Domestic Help Insurance Policy-Booklet 4. Fire & Special Perils –Takaful Plan Al Madina Takaful Insurance Implants Code of Conduct	The SSB reviewed the BancaTakaful documents listed in the subject and approved them.

Resolutions issued by SSB during the year 2020 (continued)

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	12 (SSB-30-2020)	Concept of Bill Financing through Services Ijara cum Wakala and Istisn'a cum Wakala Structures	<p>Concept of Bill Financing: This is with regard to bill financing facility, based on Services Ijara cum Wakala and Istisn'a cum Wakala Structures, for potential customers (Service Providers/ sub-contractors etc.) who can offer their services to services seekers. To offer a Shari'a compliant facility to these type of customers against the accepted bills/ invoices from the third party against services and manufacturing (production and manufacturing of assets), we propose to consider offering services Ijara cum Wakala and Istisn'a cum Wakala financing structures respectively. These financing facilities will help the service providers and manufacturers to cover their working capital requirements by discounting of the bills (with 80%-90%) upfront for the tenor of the bill (90/180 days). Once the third party clears the bills on the due date, the service Ijara cum Wakala and Istisn'a cum Wakala will be settled. Following is the broad process of bill discounting through Services Ijara cum Wakala and Istisn'a cum Wakala:</p> <p>Broad Process Flow of Bill Financing under Service Ijara cum Wakala:</p> <ul style="list-style-type: none"> - The customer will bring to the Bank third party contract stating required services, tenor and terms of the payment amount. - The Bank will enter into Master Service Ijarah agreement with the customer & sanction facilities within the agreement mentioned above. - The Bank will make customer (service provider) as its agent to render services to third party. - The customer will raise an Invoice/bill to the third party for acceptance under its agreement post-delivery of the services. - Upon acceptance of the bill/invoice by the third party, the customer will submit the same bill to the Bank for the services cost under its facilities. - The Bank will finance the customer upto 80% - 90% (subject to prevailing risk) for a respective tenor (90 to 180 days). - Since the customer and the third party are in direct relation therefore, on the due date, the third party will make payment in customers' account with the bank to pay/settle the respective service Ijara facility which the customer has rendered to third party on behalf of the Bank. - The Bank will recover the facility & its profit from the proceeds from third party and any excess over shall be available to the customer. <p>Broad Process Flow of Bill Financing under Istisn'a cum Wakala:</p> <ul style="list-style-type: none"> - The customer will bring to the Bank third party contract stating required services, tenor and terms of the payment amount. - The Bank will enter into Istisn'a agreement with the customer & sanction facilities within the agreement mentioned above. - The Bank will make client as its agent to manufacture goods/asset for third party/ultimate buyer. - The customer will raise an Invoice/bill to the third party for acceptance under its agreement post-delivery of the good/asset. - Upon acceptance of the bill/invoice, the customer will submit the same bill to the Bank for discounting under its facilities - The Bank will finance the customer upto 80% - 90% (subject to prevailing risk) for a respective tenor (90 to 180 days). - On the due date, the third party will make payment in customers' account with the bank to settle the respective Istisn'a cum Wakala facility - The Bank will recover the facility & its profit from the proceeds from third party and any excess cash shall be available to the customer. <p>SSB Opinion: The SSB has gone through the concept of bills financing through Services Ijara cum Wakala and Istisn'a cum Wakala to the customers who have the expertise and services available with them. The concept seems fine to work further from Sharia perspective for development of the product. While developing the product the following key elements should be considered:</p> <ol style="list-style-type: none"> 1. The contract between beneficiary and the customer should be well defined and the services required should be the same which the customer gets financed from the Bank. 2. There should be a clear bifurcation of purchase of services or assets and their offering to ultimate beneficiary (third party) through agency. The agency role of the customer for selling the services or assets to third party on behalf of the Bank must be fully agreed. 3. The Bank will make a formal proposal of the product with complete details including structure, process, list of legal documents, accounting entries for SSB approval. 4. After the product proposal is approved, the legal documents draft and all the aspects of the products are subject to the SSB approval.

Resolutions issued by SSB during the year 2020 *(continued)*

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
SSB meeting on 20.10.2020 SSB-31-2020	2 (SSB-31-2020)	Modification: Shari'a Approval on Proposal to Launch Premium and Private Banking and its Associated Services	The SSB amendments in the Proposal to Launch Premium and Private Banking and its Associated Services which was approved by the SSB through resolution dated September 2, 2020 (CR2-SSB-2020) and approved them.
	3 (SSB-31-2020)	Memo on New BancaTakaful Tie-up with Al-Madinah Takaful	The SSB reviewed the memo on BancaTakaful Tie-up with Al Madina Takaful and approved it.
	6 (SSB-31-2020)	Sharia Audit Reports of 2nd Quarter 2020 I. Corporate Banking II. Retail Banking III. Treasury IV. Trade Finance	The SSB reviewed the subject Shari'a audit reports. The SSB gave its opinion in the Shari'a audit reports under the column of SSB opinion
	7 (SSB-31-2020)	Status of SSB Opinion in the Sharia Audit Report I. Retail Banking Sharia Audit Report of 1st Quarter 2020 II. Corporate Banking Sharia Audit Report of 1st Quarter 2020	The SSB reviewed the implementation status of the SSB opinion given in the subject Shari'a audit reports for the observations and found it satisfactory.
	8 (SSB-31-2020)	Repayment Agreement for Overdue Amount	The SSB reviewed the Repayment Agreement for Overdue Amount and approved it.
	9 (SSB-31-2020)	Settlement and Termination Agreement	The SSB reviewed the Settlement and Termination Agreement and approved it.
	10 (SSB-31-2020))	Al Qimmah Investment Wakala Account Contract	The SSB reviewed the Al Qimmah Investment Wakala Account Contract and approved it.
	11 (SSB-31-2020)	Appointment of Chairman and Deputy Chairman of the SSB	The SSB members discussed and elected Dr. Mohammed Taher Al-Ibrahim as Chairman of the SSB and decided that Dr. Mustain Ali Abdul Hameed will be Deputy Chairman of the SSB.
SSB meeting on 14.12.2020 SSB-32-2020		SSB Meeting with Board of Directors (BOD)	The SSB met with the Board of Directors and discussed about ahli islamic development and positive progress. The SSB updated the BOD on Sharia compliance and praised the performance of ahli islamic towards a strong Sharia compliant Islamic banking entity.

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Youth Account of Ahli Islamic

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 01 Jamada al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Youth Account Product, which details are as follows:

Shari'a Structure of the Product:

Ahli Islamic Youth Account is an investment account that is based on the Shari'a principles of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the invested capital into Mudaraba pool, which includes all the Mudaraba based accounts, and invests the capital into Sharia compliant profitable businesses. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment Account Holders and the Bank does not ask for any compensation for its efforts.

The SSB Opinion:

Having reviewed the Youth Account Product, the Shari'a Supervisory Board of the Bank confirms that Youth Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Investment Wakala Account

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 01-Jamada al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Investment Wakala Deposit Account, which details are as follows:

SSB Opinion:

The SSB opines that investment Wakala is to delegate another person to invest funds into Sharia compliant business against a remuneration or without remuneration, as it is permissible in Sharia. From Sharia point of view, it is permissible that the investment Wakala is limited to specific kind of investment or specific place. Investment Wakala can be absolute or customarily restricted whichever is beneficial for Muwakkil and Wakil.

Under the investment agency product, Ahli Islamic, acts as Wakil, to invest capital of the client (Muwakkil), and Ahli Islamic undertakes to invest the funds of the investors (i.e., depositors) on their behalf in transactions that comply with the Sharia rules and principles.

The Wakil is entitled to fees that may be a specific amount collected separately or taken from the return that is finally settled with the Muwakkil. And it is permissible that Wakil fee is the amount over to expected profit or a share of that. A certain share of the expected profit may be added to the specific fee of the agent as a motivation. Also the agency may be without a remuneration and the parties agree that over to expected profit on the investment will be taken by Wakil as incentive.

The SSB reviewed the structure and terms and conditions of the following Ahli Islamic products and the SSB confirms that these products comply with rules and principles of Sharia:

- Investment Wakala for call Account.
- Investment Wakala for fixed deposit.
- Investment Wakala for Al Qimah Account.

Investment Wakala product may be applied in SME, Corporate and Retail for short, medium and long time deposit accounts based.

And Allah knows what is right.

Sharia Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Sharia Supervisory Board

BancaTakaful with Al-Madinah Takaful

All praise is to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday, 1 Jamade al-Thani-1442AH that corresponds to January 14, 2021 the Shari'a Supervisory Board of Ahli Islamic, Ahli Bank SAOG (SSB) issued the fatwa on BancaTakaful with Al-Madinah Takaful which details are as follows:

SSB Pronouncement

After reviewing the BancaTakaful Product Proposal and its legal documents, which relate to BancaTakaful with Al Madina Takaful, SSB has approved them and the SSB confirms that the BancaTakaful product of Ahli Islamic is in line with dictates of Sharia.

And all praise is due to Allah.

Sharia Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Ladies Account of Ahli Islamic

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 1 Jamade al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Ladies Account Product, which details are as follows:

Shari'a Structure of the Product:

Ahli Islamic Ladies Account is an investment account that is based on the Shari'a principles of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the invested capital into Mudaraba pool, which includes all the Mudaraba based accounts, and invests the capital into Sharia compliant profitable businesses. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment Account Holders and the Bank does not ask for any compensation for its efforts.

The SSB Opinion:

Having reviewed the Ladies Account Product, the Shari'a Supervisory Board of the Bank confirms that Ladies Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Children Account of Ahli Islamic

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 01 Jamada al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Children Account Product, which details are as follows:

Shari'a Structure of the Product:

Ahli Islamic Children Account is an investment account that is based on the Shari'a principles of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the invested capital into Mudaraba pool, which includes all the Mudaraba based accounts, and invests the capital into Sharia compliant profitable businesses. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment Account Holders and the Bank does not ask for any compensation for its efforts.

The SSB Opinion:

Having reviewed the Children Account Product, the Shari'a Supervisory Board of the Bank confirms that Youth Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic - Window

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of the Ahli Islamic - Window ('the Window') of Ahli Bank SAOG ('the Bank') as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman ("CBO").

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in owners' equity for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of sources and uses of charity fund for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics for Accountants and Auditors of Islamic Financial Institutions.

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Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865, Tax Card No 8055889



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic – Window (continued)

Emphasis of matter

We draw attention to the fact that, as described in note 2.1, the Window of the Bank is not a separate legal entity. These financial statements, therefore, represent the Ahli Islamic - Window which is not a separate stand-alone legal entity. Our opinion is not modified with respect to this matter.

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the annual report of the Shari'a Supervisory Board, Management Discussion and Analysis Report and 2020 Disclosure Requirements under Pillar III of Basel II (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Bank's Board of Directors for the financial statements

These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles, as determined by the Shari'a Supervisory Board, are the responsibility of the Bank's Board of Directors.

The Bank's Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Accounting Standards issued by the AAOIFI as modified by the CBO and the relevant requirements of the CBO and for such internal control as the Bank's Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Window's financial reporting process.



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic – Window (continued)

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Window's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Board of Directors.
- Conclude on the appropriateness of the Bank's Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Window's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Window to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank's Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic – Window (continued)

Report on other legal and regulatory and Shari'a requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

- a) received all required information and explanations to prepare the report; and
- b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Further we report that the Window has complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Window during the period under audit.

A handwritten signature in blue ink, appearing to read 'Musa Al-Harazi', is written over the text of the report.

Muscat, Sultanate of Oman
9 March 2021

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000		Note	2020 RO '000	2019 RO '000
ASSETS					
81,818	24,112	Cash and balances with Central Bank of Oman	6	9,283	31,500
1,213	9,060	Due from banks	7	3,488	467
122,714	111,151	Murabaha receivables	8	42,793	47,245
398,629	449,993	Musharaka receivables	9	173,247	153,472
89,169	75,056	Investment securities	10	28,896	34,330
346,299	332,966	Ijarah assets - Ijarah Muntahia Bittamleek	11	128,192	133,325
1,434	1,455	Credit Card receivables	12	560	552
886	1,291	Service ijarah	13	497	341
3,910	4,324	Property and equipment	15	1,665	1,505
6,796	16,424	Other assets	16	6,324	2,617
<u>1,052,868</u>	<u>1,025,832</u>	TOTAL ASSETS		<u>394,945</u>	<u>405,354</u>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY					
370,486	148,579	Due to banks	17	57,203	142,637
347,333	427,602	Wakala deposits	18	164,627	133,723
42,075	58,551	Customers' current accounts		22,542	16,199
26,476	14,757	Other liabilities	19	5,681	10,193
786,370	649,489	TOTAL LIABILITIES		250,053	302,752
148,808	255,312	Equity of investment account holders	20	98,295	57,291
<u>935,178</u>	<u>904,801</u>	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		<u>348,348</u>	<u>360,043</u>
64,935	64,935	Share capital	21	25,000	25,000
(55)	(514)	Investment fair value reserve		(198)	(21)
3,831	11,826	Impairment reserve		4,553	1,475
839	-	Special Reserve		-	323
48,140	44,784	Retained earnings		17,242	18,534
<u>117,690</u>	<u>121,031</u>	TOTAL OWNERS' EQUITY		<u>46,597</u>	<u>45,311</u>
<u>1,052,868</u>	<u>1,025,832</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		<u>394,945</u>	<u>405,354</u>
47,732	44,133	Contingent liabilities and commitments	22	16,991	18,377

The financial statements and notes 1 to 34 were approved by the Board of Directors on 27 January 2021 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

Report of the independent Auditors - pages 178 - 181

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

2019	2020		2020	2019
US\$ '000	US\$ '000	Note	RO '000	RO '000
47,888	43,984	Income from financing activities	16,934	18,437
1,636	4,467	Income from investing activities	1,720	630
208	299	Other operating income	115	80
(2,003)	(5,597)	Net impairment on financial assets	(2,155)	(771)
47,729	43,153		16,614	18,376
(5,153)	(5,442)	Return to investment account holders	(2,095)	(1,984)
2,086	1,865	Islamic Windows' share as Mudarib	718	803
(3,067)	(3,577)	Return to investment account holders before zakah	(1,377)	(1,181)
44,662	39,576	Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)	15,237	17,195
2,257	1,642	Other operating income from banking services	632	869
(17,997)	(12,218)	Profit paid on due to banks	(4,704)	(6,929)
(10,483)	(15,070)	Profit paid on wakala deposits	(5,802)	(4,036)
18,439	13,930	Net operating income	5,363	7,099
(4,431)	(6,301)	Staff expenses	(2,426)	(1,706)
(844)	(1,073)	Depreciation	(413)	(325)
(2,263)	(2,979)	Other operating expenses	(1,147)	(871)
(7,538)	(10,353)	Total expenses	(3,986)	(2,902)
10,901	3,577	Profit before taxation	1,377	4,197
(1,636)	223	Taxation	86	(630)
9,265	3,800	Profit for the year	1,463	3,567
		Other comprehensive income / (expense)		
		Items that will not be reclassified to profit or loss		
36	(11)	Equity investment at FVOCI - net changes in fair value	(4)	14
		Items that will be reclassified to profit or loss		
1,109	(448)	Debt investment at FVOCI - net changes in fair value	(173)	427
1,145	(459)	Other comprehensive income / (expense) for the year	(177)	441
10,410	3,341	Total comprehensive income for the year	1,286	4,008

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

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STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital	Investment fair value reserve	Impairment reserve	Special Reserve	Retained earnings	Total
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2020		25,000	(21)	1,475	323	18,534	45,311
Profit for the year		-	-	-	-	1,463	1,463
Transfer to impairment reserve		-	-	3,078	-	(3,078)	-
Transfer to special reserve		-	-	-	(323)	323	-
Other comprehensive income		-	(177)	-	-	-	(177)
At 31 December 2020		25,000	(198)	4,553	-	17,242	46,597
At 31 December 2020 (US\$ '000)		64,935	(514)	11,826	-	44,784	121,031

		Share capital	Investment fair value reserve	Impairment reserve	Special Reserve	Retained earnings	Total
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2019		25,000	(462)	1,954	323	14,488	41,303
Profit for the year		-	-	-	-	3,567	3,567
Transfer from impairment reserve		-	-	(479)	-	479	-
Other comprehensive income		-	441	-	-	-	441
Cash Dividend paid		-	-	-	-	-	-
At 31 December 2019		25,000	(21)	1,475	323	18,534	45,311
At 31 December 2019 (US\$ '000)		64,935	(55)	3,831	839	48,140	117,690

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000	Note	2020 RO '000	2019 RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
10,901	3,577	Profit for the year	1,377	4,197
Adjustments for:				
844	1,073	Depreciation - property and equipment	413	325
19,044	10,345	Depreciation - Ijarah Muntahia Bittamleek	3,983	7,332
2,003	5,597	Net impairment on financial assets	2,155	771
32,792	20,592	Operating profit before change in operating assets and liabilities	7,928	12,625
(540)	10,694	Decrease / (Increase) in Murabaha receivables	4,117	(208)
(65,886)	(56,335)	Increase in Musharaka receivables	(21,689)	(25,366)
(283)	(405)	Increase in Service ijarah receivables	(156)	(109)
(52)	(26)	Increase in Credit card receivables	(10)	(20)
(3,283)	(9,653)	Increase in other assets	(3,716)	(1,264)
219,110	(171,057)	(Decrease) / Increase in due to banks	(65,857)	84,357
(5,083)	80,270	Increase / (Decrease) in Wakala deposits	30,904	(1,957)
15,249	16,475	Increase in customers' current accounts	6,343	5,871
14,842	(10,086)	(Decrease) / Increase in other liabilities	(3,883)	5,714
16,584	106,506	Increase in equity of investment account holders	41,004	6,385
223,450	(13,025)	Cash (used in) / generated from operations	(5,015)	86,028
(2,457)	(1,471)	Tax paid	(566)	(946)
220,993	(14,496)	Net cash (used in) / generated from operating activities	(5,581)	85,082
CASH FLOWS FROM INVESTING ACTIVITIES				
(50,148)	3,312	Decrease / (Increase) Investment in Ijarah assets - Ijarah Muntahia Bittamleek	1,275	(19,307)
(50,774)	(29,197)	Purchase of investments	(11,241)	(19,548)
-	42,857	Proceeds from sale / maturity of investment	16,500	-
(2,134)	(1,487)	Purchase of property and equipment	(573)	(822)
(103,056)	15,485	Net cash generated from / (used in) investing activities	5,961	(39,677)
117,937	989	NET CHANGE IN CASH AND CASH EQUIVALENTS	380	45,405
(86,281)	31,656	Cash and cash equivalents at 1 January	12,187	(33,218)
31,656	32,645	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)	12,568	12,187
2019 US\$ 000	2020 US\$ 000		2020 RO '000	2019 RO '000
81,818	24,112	Cash and current balances with Central Bank of Oman	9,283	31,500
1,213	9,060	Due from banks	3,488	467
(51,375)	(527)	Due to banks	(203)	(19,780)
31,656	32,645	Cash and cash equivalents	12,568	12,187

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

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STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000		Note	2020 RO '000	2019 RO '000
Sources of charity fund					
3	3	Fund at the beginning of the year		1	1
9	12	Penalties to customer for late payment		4	3
3	-	Contribution from credit card income		-	1
<u>15</u>	<u>15</u>			<u>5</u>	<u>5</u>
Uses of charity fund					
Distributed to charity organizations					
-	3	Association for the Welfare of the Handicapped Children		1	-
-	3	Association for Early Intervention for children with disabilities		1	-
-	3	Omani Bahja Orphan Society		1	-
-	3	Ihsaan Association (Omani Association for Elderly Friends)		1	-
3	-	Dar Al Atta Association		-	1
3	-	Al Noor Association for the Blind		-	1
3	-	Oman Diabetics Association		-	1
3	-	Oman Charitable Organization		-	1
<u>12</u>	<u>12</u>	Total uses of charity fund during the year		<u>4</u>	<u>4</u>
<u>3</u>	<u>3</u>	Undistributed charity fund at the end of the year	19	<u>1</u>	<u>1</u>

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Islamic Banking Services (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (The Bank). During the board of directors meeting held on 6 December 2018 it was approved to change the name of the Islamic Window from "Al Hilal Islamic Banking Services" to "ahli islamic" (herein referred to as Islamic Window). Accordingly Islamic Window name was changed effectively from 1 May 2019. The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The Islamic Window was operating through a network of twelve branches as at year end (31 December 2019: nine branches).

The registered address of the Islamic Window is PO Box 545, PC 116, Mina Al Fahal, Sultanate of Oman.

The Islamic Window employed 116 employees as at 31 December 2020 (31 December 2019: 77 employees).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Islamic window is not a separate legal entity. The assets and liabilities presented within the Islamic Window remain the assets and liabilities of the Bank and are not legally separable from the Bank's other assets and liabilities. As such legally, the assets of the Islamic Window may be available to the other claims of the Bank. The separate financial statements of the Islamic Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by the CBO. These financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Financial institutions (AAOIFI) as modified by the regulations issued by the CBO in respect of impairment of financing and other receivables and investments (refer note 4.16), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

These financial statements pertain to the Islamic Window operations only and do not include financial results of the Bank. Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for investments classified as instruments at fair value through equity which have been measured at fair value.

2.3 Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency of the Bank. The United States Dollar ('US\$') amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US\$, and are shown for the convenience of the user of financial statements only as supplemental information. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

2.5 Outbreak of Coronavirus (Covid-19)

The World Health Organization officially declared Covid-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the bank have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc (refer CBO circular no. BSD/CB/2020/001 for details).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

Standards, amendments and interpretations effective in 2020 and relevant for the Islamic Window operations

For the year ended 31 December 2020, the Islamic Window has adopted 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 or after 1 January 2020.

The adoption of those standards and interpretations has resulted in changes to the Islamic Window's accounting policies and has not affected the amounts reported for prior periods.

3.1 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:

3.1.1 Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Islamic Window. The management is in the process of assessing the impact of these standards on the financial statements of the Islamic Window.

3.2 The following new standards have been issued by the AAOIFI but are not yet mandatory for the year ended 31 December 2020:

FAS 30 : Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. The standard will be effective from financial periods beginning on or after 1 January 2021 with early adoption permitted. CBO earlier issued its circular 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments Standard (IFRS 9) for all the banks, which also applies to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued. The Islamic Window had adopted the IFRS 9, which are similar to FAS 30, with effect from 1 January 2018.

FAS 31 : Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted. Since Islamic Window does not offer Wakala Bi Al-Istithmar to its customers therefore adoption of this standard is not expected to have any impact on its financial statements.

FAS 32 : Ijara

AAOIFI has issued FAS 32 Ijara in 2020. The objective of this standard is to establish the set-out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted. The Islamic Window is currently evaluating the impact of this standard.

FAS 33 : Investment in Sukuk, shares and similar instruments

AAOIFI has issued FAS 33 Investment in Sukuk, shares and similar instruments in 2019. FAS 33 supersedes the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'a principles. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(Continued)*

FAS 34 : Financial Reporting for Sukuk -holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

FAS 35 : Risk Reserve

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs / the institutions). The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management. The standard encourages maintaining adequate risk reserves to safeguarding the interest of profit and loss stakeholders particularly against various risks including credit, market, equity investment risks, as well as, the rate of return risk including displaces commercial risk. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments". The Islamic Window is currently evaluating the impact of this standard.

4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

4.1 Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions

4.1 Foreign currency translation (continued)

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 operating 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 recognized in the statement of comprehensive income, except for non-monetary financial assets, such as investments classified as at fair value through equity, which are included in 'investments fair value reserve' in statement of changes in owners' equity. 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.

4.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from and due to banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Islamic Window in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.3 Due from banks

Due from banks comprise wakala placements and nostro accounts. These are stated at cost, less expected credit loss allowance, if any.

4.4 Murabaha receivable

Murabaha receivables are sales on deferred profits. The Islamic Window arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in installments by the customer over the agreed period. Murabaha receivables are stated net of deferred profits and expected credit loss allowance, if any.

4.5 Musharaka

In Musharaka based financing, the Islamic Window enters into Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilization of the Islamic Window's Musharaka share by the customer.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Investments

Investments comprise investments in debt type and equity type financial instruments.

Investments in these instruments are classified into following categories;

- at amortised cost
- at fair value through statement of income
- at fair value through equity

4.6.1 Instruments at amortised cost

Investments which have fixed or determinable payments and where the Islamic Window has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less expected credit loss allowance. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognized in the statement of comprehensive income, when the instruments are de-recognised or impaired.

4.6.2 Instruments at fair value through statement of income

This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are subsequently re-measured at fair value. All related realized and unrealized gains or losses are included in the statement of comprehensive income.

4.6.3 Instruments at fair value through equity

This includes debt type instruments that are not fair valued through statement of income or not held at amortised cost. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value less expected credit loss allowance, with unrealized gains or losses recognized in owners' equity until the investment is derecognized at which time the cumulative gain or loss previously recorded in owners' equity is recognised in the statement of equity.

On initial recognition, the Islamic Window makes an irrevocable election to designate certain equity instruments to be classified as investments at fair value through equity. Subsequent to acquisition, these equity instruments are re-measured at fair value with unrealized gains or losses recognized in owners' equity. At time of derecognition of these equity instruments the unrealised gains or losses remains in owners' equity and not recycled to statement of equity .

4.7 Ijarah assets – Ijarah Muntahia Bittamleek

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Islamic Window assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the statement of comprehensive income.

4.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment.

The estimated useful lives for the current period are as follows:

	Years
Building	25
Furniture & fixtures	10
Computer and other equipment	5-10
Leasehold improvements	5
Intangibles	10

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Property and equipment *(Continued)*

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work in progress is not depreciated until the asset is put to use.

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 sale proceeds with the carrying amount and are recognised within 'other operating 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 expenditures are recognised in the income statement as an expense when incurred.

4.9 Due to banks

It comprises of wakala placements from banks and vostro account balances. Wakala payables are stated at cost less amounts repaid.

4.10 Wakala deposits

The Islamic Window accepts deposits from customers under Wakala arrangement under which a return may be payable to customers as agreed in the agreement. There is no restriction on the Islamic Window for the use of funds received under wakala agreement.

4.11 Customers' current accounts

Customers' current accounts are treated on the basis of "Qard". No profit or loss is passed on to current account holders, however the funds of current accounts are treated as equity for the purpose of profit calculation for investments account holders and any profit earned / loss incurred on those funds are allocated to the equity of the Islamic Window.

4.12 Equity of investment account holders

Equity of investment account holders are funds held by the Islamic Window in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Islamic Window to invest the account holders' funds in a manner which the Islamic Window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Islamic Window charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalization reserve and Investment risk reserve) and deducting the Islamic Window's share of income as a Mudarib. The allocation of income is determined by the management of the Islamic Window within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Islamic Window and are not charged separately to investment accounts. Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Islamic Window out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Islamic Window out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

4.13 Revenue recognition

4.13.1 Due from banks

Income on amounts due from banks is recognised on a time proportion basis over the period of the contract based on the principal amounts outstanding and the profit agreed with the clients.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Revenue recognition *(Continued)*

4.13.2 Murabaha

Income on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profit irrespective of whether or not cash is received, net of suspended profit.

4.13.3 Musharaka

Income on Musharaka is recognised on accrual basis, net of suspended profit.

4.13.4 Ijarah

Rentals accrued from ijarah financings net of depreciation charged are taken to the statement of comprehensive income, net of suspended profit.

4.13.5 Income from investments

Income from investments is recognised when earned.

4.13.6 Dividend

Dividend income is recognised when right to receive payment is established.

4.13.7 Fee and commissions

Fee and commission income recognised when earned.

Commission on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Islamic Window has fulfilled all its obligations in connection with the related transaction.

4.13.8 Islamic Window share as a Mudarib

The Islamic Windows' share as Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related mudaraba agreement.

4.13.9 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

4.14 Provisions

Provisions are recognised when the Islamic Window has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

4.15 Taxation

Taxation is calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window.

4.16 Impairment

The Islamic Window assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or fair value through equity which mainly include financings, investments (other than equity investments), interbank placements, financing commitments and financial guarantees. The Islamic Window recognises a loss allowance and provision for such losses at reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Impairment *(Continued)*

The Islamic Window approach leveraged the existing regulatory capital models and processes for financing portfolios that use the existing Internal Rating based and behavioral credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Islamic Window measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 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.

Measurement of ECL

Credit loss 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.

For financial assets in Stage 1 and Stage 2, the Islamic Window calculates profit income by applying the Effective Profit Rate to the gross carrying amount (i.e., without deduction for ECLs).

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

- (i) Probability of default (PD);
- (ii) loss given default (LGD);
- (iii) exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

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.

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 financee, then ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Impairment *(Continued)*

Measurement of ECL *(Continued)*

Write off

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 Islamic Window. 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.

4.17 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair values is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

4.18 De-recognition of financial assets and liabilities

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

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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

4.19 Employee terminal benefits

4.19.1 Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Islamic Window's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

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

4.19.2 Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

4.20 Earnings prohibited by Sharia

The Islamic Window is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Zakah

Zakah is calculated in accordance with FAS 9 Zakah using the net assets method. The Islamic Window will calculate the "Zakah base" based on audited financial statements and after approval from Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually. Payment of Zakah on the investment accounts and other accounts is the responsibility of investment account holders.

4.22 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Islamic Window has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.23 Sharia Supervisory Board

The Islamic Window's business activities are subject to the supervision of a Sharia Supervisory Board consisting of members appointed by the general assembly of shareholders.

4.24 Joint and self financed

Assets that are jointly owned by the Islamic Window and the investment account holders are presented as "jointly financed" in the financial statements. All other assets are "self financed".

4.25 Commingling of funds

The funds of Islamic Window are not commingled with the funds of Conventional Operations of the Bank.

5 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The Islamic Window's significant accounting estimates are in the followings:

5.1 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

5.2 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and Fair value through equity is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 32.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- (a) Determining criteria for significant increase in credit risk;
- (b) choosing appropriate models and assumptions for measurement of ECL;
- (c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- (d) establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates is provided in note 4.16.

5.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
11,668	11,437	Cash	4,403	4,492
70,150	12,675	Clearing account with Central Bank of Oman	4,880	27,008
<u>81,818</u>	<u>24,112</u>		<u>9,283</u>	<u>31,500</u>

7 DUE FROM BANKS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
-	7,792	Wakala placements	3,000	-
1,213	1,268	Nostro account balances	488	467
<u>1,213</u>	<u>9,060</u>		<u>3,488</u>	<u>467</u>

8 MURABAHA RECEIVABLES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
39,558	32,719	Vehicles	12,597	15,230
85,109	77,951	Personal financing	30,011	32,767
16,870	17,577	Corporate	6,767	6,495
141,537	128,247	Gross receivables	49,375	54,492
(18,210)	(15,613)	Deferred profits	(6,011)	(7,011)
123,327	112,634		43,364	47,481
		Less: Impairment loss allowance		
(288)	(1,104)	Stage 1 and 2	(425)	(111)
(325)	(379)	Stage 3	(146)	(125)
<u>122,714</u>	<u>111,151</u>		<u>42,793</u>	<u>47,245</u>

Murabaha receivables are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

8.1 DEFERRED PROFIT

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
(18,683)	(18,210)	Deferred profit at the beginning of the year	(7,011)	(7,193)
(55,749)	(20,517)	Murabaha sales during the year	(7,899)	(21,469)
49,262	18,366	Murabaha cost of sales	7,071	18,966
(6,487)	(2,151)	Deferred profit on sales	(828)	(2,503)
6,974	4,748	Murabaha income recognised during the period	1,828	2,685
<u>(18,210)</u>	<u>(15,613)</u>	Deferred profit at the end of the year	<u>(6,011)</u>	<u>(7,011)</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

9 MUSHARAKA RECEIVABLES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
401,629	457,964	Musharaka receivables	176,316	154,627
(3,000)	(1,906)	Less: Impairment loss allowance	(734)	(1,155)
-	(6,065)	Stage 1 and 2	(2,335)	-
-		Stage 3		
<u>398,629</u>	<u>449,993</u>		<u>173,247</u>	<u>153,472</u>

Musharaka receivables are jointly financed by the Islamic window and investment account holders under Wakala deposits.

10 INVESTMENT SECURITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
		Debt type instrument at fair value through equity		
88,449	74,211	Sukuks	28,571	34,053
		Equity type instrument at fair value through equity		
720	845	Open end mutual fund and equity	325	277
<u>89,169</u>	<u>75,056</u>		<u>28,896</u>	<u>34,330</u>

Investment securities are jointly financed by the Islamic window and investment account holders under Wakala deposits.

11 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
470,808	467,496	Cost	179,986	181,261
(121,636)	(131,982)	Accumulated depreciation	(50,813)	(46,830)
349,172	335,514	Book value	129,173	134,431
		Less: Impairment loss allowance		
(1,961)	(1,701)	Stage 1 and 2	(655)	(755)
(912)	(847)	Stage 3	(326)	(351)
<u>346,299</u>	<u>332,966</u>	Net book value	<u>128,192</u>	<u>133,325</u>

Ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

12 CREDIT CARD RECEIVABLE

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
1,437	1,463	Islamic Credit Card	563	553
		Less: Impairment loss allowance		
(3)	(8)	Stage 1,2 & 3	(3)	(1)
<u>1,434</u>	<u>1,455</u>	Net book value	<u>560</u>	<u>552</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

13 SERVICE IJARAH

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
886	1,291	Service Ijarah	497	341
886	1,291	Net book value	497	341

Service ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

14. FINANCING ACTIVITIES

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.

14.1 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS AS AT 31 DECEMBER 2020:

Disclosure requirements for the year ended 31 December 2020, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
(1)	(2)	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	267,666	3,658	400	3,258	264,007	267,266	-	-
	Stage 2	44,979	-	677	(677)	44,979	44,302	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		12,645	3,658	1,077	2,581	308,986	311,568	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	20,246	-	740	(740)	20,246	19,506	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		20,246	-	740	(740)	20,246	19,506	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	28	7	14	(7)	21	14	-	-
Subtotal		28	7	14	(7)	21	14	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	10,368	4,715	2,246	2,469	5,259	8,122	-	394
Subtotal		10,368	4,715	2,246	2,469	5,259	8,122	-	394
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,626	2,681	1,571	1,110	3,315	5,055	-	630
Subtotal		6,626	2,681	1,571	1,110	3,315	5,055	-	630
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	49,247	-	47	(47)	49,247	49,200	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9	-	9	(9)	9	-	-	-
Subtotal		49,256	-	56	(56)	49,256	49,200	-	-
Total	Stage 1	316,913	3,658	447	3,211	313,254	316,466	-	-
	Stage 2	65,225	-	1,417	(1,417)	65,225	63,808	-	-
	Stage 3	17,031	7,403	3,840	3,563	8,604	13,191	-	1,024
	Total	399,169	11,061	5,704	5,357	387,083	393,464	-	1,024

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, financing commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

14. FINANCING ACTIVITIES

14. FINANCING ACTIVITIES *(Continued)*

14.2 Restructured Loans

Asset Classifica- tion as per CBO Norms	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	Profit recognised in P&L as per IFRS 9	Sus- pended profit as per CBO norms
(1)	(2)	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1				-	-	-	-	-
Classified as performing	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,181	-	429	(429)	15,181	14,752	-	-
Classified as non- performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,925	2,671	1,626	1,045	5,595	7,299	-	659
Sub total		8,925	2,671	1,626	1,045	5,595	7,299	-	659
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	8,925	2,671	1,626	1,045	5,595	7,299	-	659
Total	Total	24,106	2,671	2,055	616	20,776	22,051	-	659

*Net of provisions and suspended profit as per CBO norms

14.3 IMPAIRMENT CHARGE AND PROVISIONS HELD

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	5,776	2,155	3,621
Provisions required as per CBO norms/ held as per IFRS 9	11,061	5,704	5,357
Gross NPL ratio (percentage)	4.86%	4.86%	-
Net NPL ratio (percentage)	2.46%	3.77%	-1.31%

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

14. FINANCING ACTIVITIES (Continued)

14.4 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS AS AT 31 DECEMBER 2019:

Disclosure requirements for the year ended 31 December 2019, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO '000	Provision required as per CBO Norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held RO '000	Net Amount		Profit recognised in P&L as per IFRS 9 RO '000	Suspended profit as per CBO norms RO '000
						as per CBO norms*	as per IFRS 9		
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(-10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	295,384	3,697	391	3,306	291,687	294,994	-	-
	Stage 2	3,571	-	38	(38)	3,571	3,533	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		298,955	3,697	429	3,268	295,258	298,527	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	37,458	-	1,593	(1,593)	37,458	35,865	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		37,458	-	1,593	(1,593)	37,458	35,865	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	358	93	164	(75)	266	194	-	3
Subtotal		358	93	164	(75)	266	194	-	3
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	253	121	117	(5)	132	136	-	9
Subtotal		253	121	117	(5)	132	136	-	9
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	409	390	235	127	19	174	-	28
Subtotal		409	390	235	127	19	174	-	28
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	73,748	-	27	(27)	73,748	73,721	-	-
	Stage 2	60	-	-	-	60	60	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		73,808	-	27	(27)	73,808	73,781	-	-
Total	Stage 1	369,132	3,697	418	3,279	365,435	368,714	-	-
	Stage 2	41,089	-	1,631	(1,631)	41,089	39,458	-	-
	Stage 3	1,020	603	516	47	417	504	-	40
Total		411,241	4,300	2,565	1,695	406,941	408,676	-	40

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, financing commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

14. FINANCING ACTIVITIES *(Continued)*

14.5 RESTRUCTURED LOANS

Asset Classification as per CBO Norms	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	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
(1)	(2)	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1				-	-	-	-	-
	Stage 2	23,392	323	802	(479)	23,069	22,590	-	-
	Stage 3	112	53	47	6	59	65	-	-
Subtotal		23,504	376	849	(473)	23,128	22,655	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Sub total		-	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	23,392	323	802	(479)	23,069	22,590	-	-
	Stage 3	112	53	47	6	59	65	-	-
	Total	23,504	376	849	(473)	23,128	22,655	-	-

*Net of provisions and suspended profit as per CBO norms

14.6 IMPAIRMENT CHARGE AND PROVISIONS HELD

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	207	771	(564)
Provisions required as per CBO norms/ held as per IFRS 9	4,300	2,565	1,735
Gross NPL ratio (percentage)	0.30%	0.30%	-
Net NPL ratio (percentage)	0.11%	0.15%	-0.04%

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

15 PROPERTY AND EQUIPMENT

	Building RO '000	Leasehold improve- ments RO '000	Computer and other equi pment RO '000	Intangi- bles RO '000	Furniture RO '000	ROU Assets RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2020	477	564	495	985	100	661	2	3,284
Additions	-	132	4	-	19	418	-	573
Disposals / scrapped	-	-	(36)	-	-	-	-	(36)
At 31 December 2020	477	696	463	985	119	1,079	2	3,821
Accumulated depreciation:								
At 1 January 2020	116	423	381	641	89	129	-	1,779
Depreciation	19	44	28	73	5	244	-	413
Disposals / scrapped	-	-	(36)	-	-	-	-	(36)
At 31 December 2020	135	467	373	714	94	373	-	2,156
Net book value as at								
At 31 December 2020	342	229	90	271	25	706	2	1,665
At 31 December 2020 (US\$ '000)	888	595	233	704	65	1,834	5	4,324

	Building RO '000	Leasehold improve- ments RO '000	Computer and other equi pment RO '000	Intangi- bles RO '000	Furniture RO '000	ROU Assets RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2019	477	467	473	951	86	-	36	2,490
Additions	-	123	23	34	15	661	(34)	822
Disposals / scrapped	-	(26)	(1)	-	(1)	-	-	(28)
At 31 December 2019	477	564	495	985	100	661	2	3,284
Accumulated depreciation:								
At 1 January 2019	97	421	345	541	76	-	-	1,480
Depreciation	19	28	36	100	13	129	-	325
Disposals / scrapped	-	(26)	-	-	-	-	-	(26)
At 31 December 2019	116	423	381	641	89	129	-	1,779
Net book value as at								
At 31 December 2019	361	141	114	344	11	532	2	1,505
At 31 December 2019 (US\$ '000)	938	366	296	894	29	1,382	5	3,910

16 OTHER ASSETS

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
5,881	15,669	Profit receivable on financing	6,033	2,264
395	329	Profit receivable on sukuks	127	152
421	291	Prepayments	112	162
99	158	Others	61	39
-	(23)	Impairment loss allowance	(9)	-
6,796	16,424		6,324	2,617

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

17 DUE TO BANKS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
370,291	148,052	Wakala acceptances	57,000	142,562
195	527	Vostro account balances	203	75
<u>370,486</u>	<u>148,579</u>		<u>57,203</u>	<u>142,637</u>

18 WAKALA DEPOSITS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
176,317	45,379	Financial institutions	17,471	67,882
171,016	382,223	Others	147,156	65,841
<u>347,333</u>	<u>427,602</u>		<u>164,627</u>	<u>133,723</u>

19 OTHER LIABILITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
18,966	8,140	Profit payable	3,134	7,302
5,340	4,395	Accrued expenses and payable	1,692	2,056
3	3	Charity payable	1	1
1,266	1,824	Lease liability	702	487
839	327	Others	126	323
62	68	Impairment loss allowance	26	24
<u>26,476</u>	<u>14,757</u>		<u>5,681</u>	<u>10,193</u>

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
148,808	255,312	Saving and call accounts	98,295	57,291
<u>148,808</u>	<u>255,312</u>		<u>98,295</u>	<u>57,291</u>

The average profit rate for the investment account holders during the year was 1.42% (2019: 2.44%). Profit sharing ratio of mudarib as at 31 December 2020 was 30% (2019: 40%)

During the period there is no appropriation to profit equalisation reserve and investment risk reserve and no provision has been charged to income attributable to investment account holders.

21 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 25 million (equivalent to US\$ 64.935 million).

22 CONTINGENT LIABILITIES AND COMMITMENTS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
27,057	32,842	Guarantees	12,644	10,417
20,675	11,291	Financing Commitment	4,347	7,960
<u>47,732</u>	<u>44,133</u>		<u>16,991</u>	<u>18,377</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

23 INCOME FROM FINANCING ACTIVITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
21,932	23,888	Musharaka	9,197	8,444
18,982	15,348	Rental income on ijarah assets	5,909	7,308
6,974	4,748	Murabaha	1,828	2,685
<u>47,888</u>	<u>43,984</u>		<u>16,934</u>	<u>18,437</u>

24 INCOME FROM INVESTING ACTIVITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
1,587	4,127	Income from investments	1,589	611
49	340	Income from wakala placements	131	19
<u>1,636</u>	<u>4,467</u>		<u>1,720</u>	<u>630</u>

25 OTHER OPERATING INCOME

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
208	299	Fee and commission, net	115	80
<u>208</u>	<u>299</u>		<u>115</u>	<u>80</u>

26 OTHER OPERATING INCOME FROM BANKING SERVICES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
2,106	1,444	Fee and commission, net	556	811
29	91	Foreign exchange gain, net	35	11
121	105	Service charges and other	41	47
<u>2,257</u>	<u>1,642</u>		<u>632</u>	<u>869</u>

27 STAFF EXPENSES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
2,273	3,309	Salaries and wages	1,274	875
2,158	2,992	Allowances	1,152	831
<u>4,431</u>	<u>6,301</u>		<u>2,426</u>	<u>1,706</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

28 OTHER OPERATING EXPENSES

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
1,558	2,070	Operating and administration costs	797	600
255	322	Occupancy costs	124	98
356	501	Advertisement costs	193	137
94	86	Shariah Supervisory Board related expenses	33	36
<u>2,263</u>	<u>2,979</u>		<u>1,147</u>	<u>871</u>

29 ZAKAH

Zakah is directly borne by the owners and unrestricted investment accountholders. The Islamic Window does not collect or pay Zakah on behalf of its owners and its investment accountholders.

30 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Islamic Window enters into transactions with major shareholders, directors, senior management, Sharia Supervisory Board and their related concerns. These transactions are conducted on an arm's length basis and are approved by the Islamic Window's management and Board of Directors.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
Directors, Shariah Supervisory Board and senior management				
7	59	Financing assets	23	3
619	1,359	Customers' deposits	523	238
Major shareholders and others				
61	398	Nostro account balances	153	23
386	499	Investment securities	192	149
370,292	148,447	Due to banks - Wakala acceptances	57,152	142,562

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
Directors, Shariah Supervisory Board and senior management				
533	8	Profit earned	3	205
94	86	Shariah Supervisory Board related expenses	33	36
82	-	Other operating expenses	-	32
Major shareholders and others				
17,364	11,701	Profit paid on due to banks	4,505	6,685

The Islamic Window has not rented any branch premises from a Director during the year 2020. (2019 - RO 0.032 million equivalent to US\$ 0.083 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of investments classified as fair value through equity as at 31 December 2020 is RO 28,896 million equivalent to US\$ 75,056 million (31 December 2019 is RO 34,330 million equivalent to US\$ 89,169 million) with cost amounts to RO 28,941 million equivalent to US\$ 75,171 million (31 December 2019: RO 34,354 million equivalent to US\$ 89,231 million).

Other than investments the Islamic Window considers that the fair value of other financial instruments is not significantly different to their carrying value.

Valuation of financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

	2020	2020	2020	2019	2019	2019
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets						
Investment - debt type instruments at fair value through equity	3,367	25,203	28,571	3,314	30,739	34,053
Investment - equity type instrument at fair value through equity	-	325	325	-	277	277
	<u>3,367</u>	<u>25,528</u>	<u>28,895</u>	<u>3,314</u>	<u>31,016</u>	<u>34,330</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Investment - debt type instruments at fair value through equity	8,748	65,463	74,211	8,608	79,841	88,449
Investment - equity type instrument at fair value through equity	-	845	845	-	720	720
	<u>8,748</u>	<u>66,308</u>	<u>75,056</u>	<u>8,608</u>	<u>80,561</u>	<u>89,169</u>

No financial instruments are carried at level 3 fair values as on 31 December 2020 (31 December 2019: Nil)

32 RISK MANAGEMENT

Risk management is an integral part of the Islamic Window's decision making process. The Board of Directors and executive risk committee guide and assist the overall management of the Islamic Window's statement of financial position risks. The Islamic Window manages exposures by setting limits approved by the Board of Directors. The Islamic Window has exposure to the following risk from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Islamic Window controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

32.1.1 TYPE OF CREDIT RISK

Financing contracts mainly comprise Murabaha receivables, Musharaka and Ijarah assets.

32.1.1.1 MURABAHA RECEIVABLE

The Islamic Window finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabaha (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabaha over the agreed period. The transactions are secured at times by the object of the murabaha and other times by a total collateral package securing the facilities given to the client.

32.1.1.2 MUSHARAKA

An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

32.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled.

32.1.1.4 SERVICE IJARAH

This is lease of services against agreed rentals. The Islamic Banking Window purchases services from third party, service provider by making full payment and then lease it to the customer through Service Ijara Contract.

32.1.1.5 CREDIT CARD RECEIVABLES

The Islamic Banking Window takes a fee for the credit card services and there are no charges taken on the amount utilized since, it is based on the Qard principle.

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Islamic Window measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

(b) Credit risk grading

The Islamic Window uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade. The ratings will also assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite will also be set in terms of how much of exposure bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.2 Credit risk measurement *(continued)*

Credit quality rating	Risk Rating(RR)	Classification
High Standard	RR1 to RR4	Not credit impaired on initial recognition- classified under 'Stage 1'.
Standard	RR5 to RR6	
Special Mention	RR7	Identified SICR since initial recognition but is not deemed to be credit impaired- Classified under 'Stage 2'.
Non performing	RR8 to RR10	Credit impaired- Classified under 'Stage 3'.

32.1.3 Exposure to credit risk

The credit exposure of the Bank as on the reporting date is as follows:

	2020				2019
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total RO '000
Clearing account with Central Bank of Oman	4,880	-	-	4,880	27,008
Due from banks	3,488	-	-	3,488	467
Financing to customers - Gross	267,657	65,225	17,031	349,913	337,433
Investment securities	28,571	-	-	28,571	34,053
Financing Commitments and financial guarantees	16,991	-	-	16,991	18,377
Gross carrying amount	321,587	65,225	17,031	403,843	417,338
Impairment loss allowance	447	1,417	3,840	5,704	2,564
Carrying amount	321,140	63,808	13,191	398,139	414,774

	2020				2019
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Clearing account with Central Bank of Oman	12,675	-	-	12,675	70,151
Due from banks	9,060	-	-	9,060	1,213
Financing to customers - Gross	695,213	169,416	44,236	908,865	876,450
Investment securities	74,210	-	-	74,210	88,449
Financing Commitments and financial guarantees	44,133	-	-	44,133	47,732
Gross carrying amount	835,291	169,416	44,236	1,048,943	1,083,995
Impairment loss allowance	1,161	3,681	9,974	14,816	6,661
Carrying amount	834,130	165,735	34,262	1,034,127	1,077,334

IMPAIRED FINANCING

The collateral held against impaired financing is RO 10.588 million equivalent to US\$ 27.501 million (31 December 2019 RO 0.188 million equivalent to US\$ 0.488 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.4 Expected credit loss measurement *(continued)*

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Islamic Window financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. From 1 January 2018, the Islamic Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at fair value through income statement together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Islamic Window has established a policy to perform an assessment on a monthly basis whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Islamic Window groups its financing exposure into Stage 1, Stage 2 and Stage 3, as classified below:

Stage 1

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

Stage 2

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

Stage 3

Financing exposure considered credit impaired. The Islamic Window records an allowance for lifetime ECLs.

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.16.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

ECL Exposure of financial assets and off-balance sheet

The following table contains an analysis of stagewise reconciliation of loss allowance from the opening to the closing balance of financial assets / off balance sheet items by class of financial instrument.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.4 Expected credit loss measurement *(continued)*

Movement in Impairment allowance and provision

	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Opening balance as at 1 January 2020				
Financings	391	1,631	516	2,538
Investment Securities & Due from Banks	3	-	-	3
Financing commitments and financial guarantees	24	-	-	24
Other assets	-	-	-	-
Net transfer between stages				
Financings	91	(830)	739	-
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	5	(5)	-	-
Other assets	-	-	-	-
Charge for the Year (net)				
Financings	(82)	616	2,576	3,110
Investment Securities & Due from Banks	18	-	-	18
Financing commitments and financial guarantees	(3)	5	-	2
Other assets	-	-	9	9
Closing balance as at 31 December 2020				
Financings	400	1,417	3,831	5,648
Investment Securities & Due from Banks	21	-	-	21
Financing commitments and financial guarantees	26	-	-	26
Other assets	-	-	9	9

Note: Charge for the year includes suspended profit of RO 0.984 Mn

32.1.5 Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Islamic Window considers both quantitative and qualitative information and analysis, based on the Islamic Window's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Islamic Window assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Islamic Window considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.5 Significant increase in credit risk (SICR) *(continued)*

The following quantitative guidelines are used to determine the staging of accounts:

1. An account will migrate to stage 2 if any of the changes in rating below are met;
 - For risk ratings 1 – 4: ≥ 3 notch downgrade
 - For risk rating 5: 2 notch downgrade
 - For risk rating 6 : 1 notch downgrade
2. An account will also migrate to stage 2 if it is more than 30 days past due
3. An account will also be considered stage 2 if has been placed under special mention

In addition to the above, qualitative criteria as per the CBO circular BM 1149 dated 13 April 2017 are being considered for assessing the significant increase in credit risk to corporate customers with limits of OMR 500,000 or more.

32.1.6 Definition of default

The Islamic Window considers a financial asset to be in default when:

- ~ the borrower is unlikely to pay its credit obligations to the Islamic Window in full, without recourse by the Islamic Window to actions such as realising security (if any is held); or
- ~ the borrower is past due more than 90 days on any material credit obligation of the Islamic Window.
- ~ In assessing whether the borrower is in default, the Islamic Window 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 Islamic Window; and
- ~ based on data developed internally and obtained from external sources.

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

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

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.

Based on advice from Credit Risk Committee and after considering of external information, the Islamic Window formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome.

In its models, the Islamic Window 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 date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Covid-19 impact on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment was made to measure ECLs at this time. When it was not possible to reflect such information in the models, post-model overlays or adjustments were considered. This is consistent with guidelines issued by CBO during the year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

The Risk department of the Bank is primarily responsible for overseeing the Islamic Window adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Islamic Window as triggering SICR. However, as part of the Islamic Window evaluation process especially given the current economic situation due to after effects of lock down, the Islamic Window obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' ratings and accordingly exposure staging were adjusted, where applicable.

Covid 19 Impact on ECL allowance

The Islamic Window's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments (PMA) are needed.

As on the reporting date, collective provision held by the Islamic Window through management overlays amounts to 5.79 % of total impairment based on latest available PD term structure, macro-economic forecasts and on exposure on certain large sector customer. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Islamic Window will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

32.2 LIQUIDITY RISK

Liquidity risk is the risk that the Islamic Window will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The Islamic Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Islamic Window's reputation. The Islamic Window has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Islamic Window through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Islamic Window as a whole. In this process due care is taken to ensure that the Islamic Window complies with all the Central Bank of Oman regulations and the liquidity ratios were in compliance with regulatory requirements as of year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.2 LIQUIDITY RISK *(continued)*

The following table summarises the maturity profile of the Islamic Window assets and liabilities as on the reporting date. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Islamic Window's deposit retention history and the availability of liquid funds.

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2020	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	9,283	-	-	-	9,283
Due from banks	3,488	-	-	-	3,488
Financing assets	8,714	13,735	60,496	262,344	345,289
Investment securities	19,372	9,524	-	-	28,896
Property and equipment	-	-	-	1,665	1,665
Other assets	4,998	1,326	-	-	6,324
Total assets	45,855	24,585	60,496	264,009	394,945
Liabilities, equity of investment account holders and owners' equity					
Due to banks	10,203	6,000	41,000	-	57,203
Customers' deposits	41,935	75,438	109,457	58,634	285,464
Other liabilities	2,751	981	1,391	558	5,681
Shareholder's fund	-	-	-	46,597	46,597
Total liabilities, equity of investment account holders and owners' equity	54,889	82,419	151,848	105,789	394,945
Net liquidity gap	(9,034)	(57,834)	(91,352)	158,220	-
Cummulative liquidity gap	(9,034)	(66,868)	(158,220)	-	-

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2020	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Cash and balances with Central Bank of Oman	24,112	-	-	-	24,112
Due from banks	9,060	-	-	-	9,060
Financing assets	22,634	35,675	157,132	681,415	896,856
Investment securities	50,318	24,738	-	-	75,056
Property and equipment	-	-	-	4,324	4,324
Other assets	12,980	3,444	-	-	16,424
Total assets	119,104	63,857	157,132	685,739	1,025,832
Liabilities, equity of investment account holders and owners' equity					
Due to banks	26,501	15,584	106,494	-	148,579
Customers' deposits	108,922	195,943	284,304	152,296	741,465
Other liabilities	7,144	2,548	3,613	1,452	14,757
Shareholder's fund	-	-	-	121,031	121,031
Total liabilities, equity of investment account holders and owners' equity	142,567	214,075	394,411	274,779	1,025,832
Net liquidity gap	(23,463)	(150,218)	(237,279)	410,960	-
Cummulative liquidity gap	(23,463)	(173,681)	(410,960)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.2 LIQUIDITY RISK *(continued)*

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
31 December 2019					
Assets					
Cash and balances with Central Bank of Oman	31,500	-	-	-	31,500
Due from banks	467	-	-	-	467
Financing assets	5,978	17,270	62,273	249,414	334,935
Investment securities	20,770	10,246	2,476	838	34,330
Property and equipment	-	-	-	1,505	1,505
Other assets	264	2,353	-	-	2,617
Total assets	58,979	29,869	64,749	251,757	405,354
Liabilities, equity of investment account holders and owners' equity					
Due to banks	30,630	31,007	81,000	-	142,637
Customers' deposits	69,572	45,543	57,166	34,932	207,213
Other liabilities	5,382	1,663	2,306	842	10,193
Shareholder's fund	-	-	-	45,311	45,311
Total liabilities, equity of investment account holders and owners' equity	105,584	78,213	140,472	81,085	405,354
Net liquidity gap	(46,605)	(48,344)	(75,723)	170,672	-
Cummulative liquidity gap	(46,605)	(94,949)	(170,672)	-	-
	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
31 December 2019					
Assets					
Cash and balances with Central Bank of Oman	81,818	-	-	-	81,818
Due from banks	1,213	-	-	-	1,213
Financing assets	15,527	44,857	161,748	647,830	869,962
Investment securities	53,948	26,613	6,431	2,177	89,169
Property and equipment	-	-	-	3,910	3,910
Other assets	686	6,110	-	-	6,796
Total assets	153,192	77,580	168,179	653,917	1,052,868
Liabilities, equity of investment account holders and owners' equity					
Due to banks	79,558	80,538	210,390	-	370,486
Customers' deposits	180,706	118,294	148,483	90,733	538,216
Other liabilities	13,980	4,319	5,990	2,187	26,476
Shareholder's fund	-	-	-	117,690	117,690
Total liabilities, equity of investment account holders and owners' equity	274,244	203,151	364,863	210,610	1,052,868
Net liquidity gap	(121,052)	(125,571)	(196,684)	443,307	-
Cummulative liquidity gap	(121,052)	(246,623)	(443,307)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.3 MARKET RISK

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

32.3.1 PROFIT RATE RISK

Profit rate risk is the risk that the Islamic Window will incur a financial loss as a result of mismatch in the profit rate on the Islamic Window's assets and investment account holders. The profit distribution to investment account holders is based on profit sharing agreements. Therefore, the Islamic Window is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Islamic Window's results do not allow the Islamic Window to distribute profits in line with the market rates.

Basel-II Accord has recommended for assessing the impact of profit rate risk by applying upto 200 basis points profit rate sensitivity. Earning impacts of 200 basis points parallel shift in profit rate is provided below;

	2020	2020	2019	2019
	RO '000	US\$ '000	RO '000	US\$ '000
Net profit earned	6,771	17,587	6,921	17,977
Impact of +200 bps profit rate increase	877	2,278	485	1,260
Impact of -200 bps profit rate decrease	(877)	(2,278)	(485)	(1,260)

32.3.2 FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors have set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Islamic Window had the following net exposures denominated in foreign currencies:

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
5,891	11,553	US Dollar	4,448	2,268
16	127	Euro	49	6
125	13	UAE Dirham	5	48
275	16	GBP Sterling	6	106
-	140	Others	54	-

The Islamic Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Islamic window also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2020.

Changes in the non-parity foreign currency prices as at 31 December 2020 on net assets is considered negligible.

32.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio.

2019	2020		Change	2020	2019
US\$ '000	US\$ '000		(+/-)	RO '000	RO '000
5,891	7,421	Sukuks	10%	2,857	3,404
16	83	Open end mutual fund and equity	10%	32	27

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.4 OPERATIONAL RISK

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

32.5 CONCENTRATION RISK

Concentration of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Islamic Window's performance to developments affecting a particular industry or geographical location.

The Islamic Window seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

Concentration by industry	2020					
	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	27,717
Corporate	6,429	145,984	53,865	-	-	1,179
Personal	36,935	30,332	75,308	1,060	-	-
Banks	-	-	-	-	3,488	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	71,994
Corporate	16,699	379,179.0	139,909	-	-	3,062
Personal	95,935	78,785.0	195,605	2,754	-	-
Banks	-	-	-	-	9,060	-
2019						
Concentration by industry	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	33,214
Corporate	6,080	137,435	56,810	-	-	1,116
Personal	41,401	17,192	77,621	894	-	-
Banks	-	-	-	-	467	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	86,270
Corporate	15,792	356,974	147,558	-	-	2,899
Personal	107,535	44,655	201,614	2,323	-	-
Banks	-	-	-	-	1,213	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.5 CONCENTRATION RISK *(Continued)*

	2020					
	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by location	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Oman	43,364	176,316	129,173	1060	3,152	28,072
Other GCC countries	-	-	-	-	129	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	207	824
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	112,634	457,964	335,514	2,754	8,187	72,916
Other GCC countries	-	-	-	-	335	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	538	2,140

	2019					
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Concentration by location</i>						
Oman	47,481	154,627	134,431	894	-	33,512
Other GCC countries	-	-	-	-	82	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	385	818
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	123,327	401,629	349,172	2,322	-	87,044
Other GCC countries	-	-	-	-	213	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	1,000	2,125

Concentration by location for financings is measured based on the location of the entity holding the asset, which has a high correlation with the location of the customer. Concentration by location for investment securities is measured based on the location of the issuer of the security.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

33 CAPITAL MANAGEMENT

The primary objectives of the Islamic Window's capital management are to ensure that the Islamic Window complies with externally imposed capital requirements and that the Islamic Window maintains strong credit ratings and healthy capital ratio in order to support its business and to maximize shareholders value.

The Islamic Window manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Islamic Window may adjust the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. During the year, as part of the covid 19 relief measures CBO has lowered the Capital Conversion Buffer (CCB) requirement by 50% from 2.5% to 1.25%. In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision, IBRF and CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
111,408	107,795	Common Equity Tier 1 (CET1)	41,501	42,892
-	-	Additional Tier 1	-	-
111,408	107,795	Tier 1	41,501	42,892
3,940	2,593	Tier 2	998	1,517
<u>115,348</u>	<u>110,388</u>	Total regulatory capital	<u>42,499</u>	<u>44,409</u>
		Risk weighted assets		
788,044	932,935	Credit risk	359,180	303,397
12,291	6,831	Market risk	2,630	4,732
38,486	39,247	Operational risk	15,110	14,817
<u>838,821</u>	<u>979,013</u>	Total risk weighted assets	<u>376,920</u>	<u>322,946</u>
		Capital adequacy ratio		
13.28%	11.01%	CET1 capital expressed as a percentage of total risk weighted assets	11.01%	13.28%
13.28%	11.01%	Total tier I capital expressed as a percentage of total risk weighted assets	11.01%	13.28%
0.47%	0.26%	Tier II capital expressed as a percentage of total risk weighted assets	0.27%	0.47%
13.75%	11.28%	Total regulatory capital expressed as a percentage of total risk weighted assets	11.28%	13.75%

Covid 19 impact on Capital adequacy:

Besides, the Islamic Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL, as mentioned above. The impact of above filter on the bank's regulatory capital is 3 bps.

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

34 SOCIAL RESPONSIBILITY

The Islamic Window discharges its social responsibilities through donations to charitable causes and organisations.

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BASEL II PILLAR III AND BASEL III Report

For the year ended 31 December 2020

Report of factual findings to the Board of Directors of Ahli Bank SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures of Ahli Islamic – the Window

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Ahli Islamic (the Window) of the Bank set out on pages 1 to 37 as at and for the year ended 31 December 2020. The disclosures were prepared by the management in accordance with the related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

The procedures, as set out in Article 10.1.2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020.

We report our findings as follows:

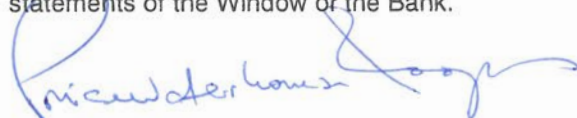
- Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than the CBO. This report relates only to the accompanying Window's disclosures and does not extend to any financial statements of the Window or the Bank taken as a whole or to any other reports of the Window or the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Window or the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Window or the Bank.



9 March 2021
Muscat, Sultanate of Oman

Basel II Pillar III and Basel III Report

31 December 2020

1. INTRODUCTION

ahli islamic (the Islamic window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (the Bank). The Islamic window was operating through a network of twelve branches as at year end (31 December 2019: nine branches).

The following report presents the qualitative and quantitative disclosures related to capital adequacy, risk profile and control process of the Islamic window on a standalone basis as per the requirements of CBO. These disclosures are intended to complement the minimum capital requirements and supervisory review process of Basel framework. They should be read in conjunction with the financial statements as of 31st December 2020.

Outbreak of Coronavirus (Covid-19)

The World Health Organization officially declared Covid-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the bank have witnessed rapid changes because of the unprecedented outbreak of coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries and sectors.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc. (refer CBO circular no. BSD/CB/2020/001 for details). The related further details are provided in note 32 on the financial statements with regard to impact of Covid19 and various measures taken by the Islamic Window on it.

2. SCOPE

The scope of application of this report is the Islamic window operations of Ahlibank SAOG only. There are no restrictions on the transfer of funds from the Bank to Islamic window, however, under the Islamic Banking regulatory framework (IBRF), Islamic window cannot place funds with the Bank. The Islamic window does not hold controlling interest in any other entity.

3. CAPITAL STRUCTURE

Qualitative Disclosure

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The regulatory capital of the Islamic window is calculated as per the guidelines of CBO and is broadly classified in two categories, Tier I and Tier II capital. Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes paid up capital, legal reserves and retained earnings reduced by deferred tax asset and cumulative unrealised losses on FVOCI investments. AT1 capital consists of perpetual capital instruments as specified under Basel III framework, however, Islamic window does not have any such instruments outstanding as of the report date. Tier II capital is composed of undisclosed reserves, cumulative fair value gains on FVOCI investments and general financing loss provisions as per IFRS 9. Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital. The Islamic window does not hold any funds from restricted investment account holders (RIA).

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

Quantitative Disclosure

The Islamic window's capital structure as at 31 December 2020, based on the CBO guidelines is as follows:

Elements of Capital – RO '000	2020	2019
Tier I Capital		
Share capital	25,000	25,000
Retained earnings	17,242	18,534
Common Equity Tier I before deductions	42,242	43,534
Deductions:		
Cumulative unrealized losses and intangibles recognized directly in equity	(741)	(642)
Common Equity Tier 1	41,501	42,892
Additional Tier I Capital	-	-
Tier I capital after all deductions	41,501	42,892
Tier II Capital		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	113	122
Stage 1 & Stage 2 expected credit losses	885	1,395
Total Tier II Capital	998	1,517
Total Regulatory Capital	42,499	44,409

CAPITAL ADEQUACY

Qualitative disclosures

The Islamic window's capital management framework sets out to define, measure, raise and deploy capital in a coordinated and consistent manner. Its objective is to maximize its return on capital and at the same time, provide an adequate cushion to cover any unexpected losses. The Islamic window manages its capital in an integrated manner with the aim of maintaining strong capital ratios. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The capital management process of Islamic window is aligned with the strategic planning process of the Bank. Capital planning is carried out in conjunction with the strategic business and financial planning exercise. The Bank maintains a five year rolling strategic plan which is updated and reviewed by the Board of Directors on an annual basis. Capital requirements are assessed based on projected business plans and budget. The Islamic window uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the eligible capital.

The Pillar 1 regulatory capital adequacy is assessed for Credit, Operational and Market risks based on CBO prescribed calculation methodology under Basel II framework. For Credit risk, Standardized Approach is adopted based on external rating from CBO's recognized External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poor's, Fitch and Capital Intelligence. For Operational risk and Market risk, Basic Indicator Approach and Standardized Approach are used, respectively. As a matter of prudence, assets funded through URIA funds (jointly financed assets) are risk weighted as if they are 100% owned by the Islamic window.

The Islamic window's total capital adequacy ratio is 11.28% and Tier 1 capital adequacy ratio is 11.01% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2020.

In addition to Pillar I minimum capital requirements under the base case, the Bank also determines additional capital requirements for Pillar II risks (i.e. liquidity risk, Rate of Return Risk, concentration risk and other risks including strategic, reputational, legal risks, Shariah non-compliance risk, etc.), utilizing quantification methodologies and stress testing scenarios. The ICAAP is an integral part of capital adequacy assessment and is a bi-annual comprehensive exercise, whereby, the Bank re-evaluates its capital adequacy in regards to material risks, internal organization and business plans. The Bank has completed the ICAAP exercise for years 2020-2023 and has determined that it is adequate capitalized to undertake its planned business activities.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

Capital adequacy disclosures – RO '000

S.No	Details - As on 31 December 2020	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	397,617	396,523	352,751
2	Off-balance sheet items	6,363	6,363	6,363
3	Derivatives	329	329	66
4	Market risk	-	-	2,630
5	Operational Risk	-	-	15,110
	Total	404,309	403,215	376,920
6	Tier 1 capital			41,501
7	Tier 2 capital			998
8	Total Regulatory Capital			42,499
8.1	Capital requirement for credit risk			39,510
8.2	Capital requirement for market risk			289
8.3	Capital requirement for operational risk			1,662
9	Total required capital			41,461
10	CET 1 ratio			11.01%
11	Tier 1 ratio			11.01%
12	Total capital ratio			11.28%

In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024.

Besides, the Islamic Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL, as mentioned above. The impact of above filter on the bank's regulatory capital is 3 bps. Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Islamic Window continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the capital position of the Islamic Window remains strong and is well placed to absorb the impact of the current disruption.

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	409,366	408,272	296,580
2	Off-balance sheet items	5,208	5,208	5,208
3	Derivatives	2,174	2,174	1,609
4	Market risk	-	-	4,732
5	Operational Risk	-	-	14,817
	Total	416,748	415,654	322,946

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
6	Tier 1 capital			42,892
7	Tier 2 capital			1,517
8	Total Regulatory Capital			44,409
8.1	Capital requirement for credit risk			33,374
8.2	Capital requirement for market risk			520
8.3	Capital requirement for operational risk			1,630
9	Total required capital			35,524
10	CET 1 ratio			13.28%
11	Tier 1 ratio			13.28%
12	Total capital ratio			13.75%

Capital adequacy disclosures – RO '000

i. Computation of Capital adequacy ratio – RO '000

S.No	Simple Approach	2020	2019
1	Tier I capital (after supervisory deductions)	41,501	42,298
2	Tier II capital (after supervisory deductions and up to eligible limits)	998	1,517
3	Risk weighted assets – banking book	359,180	303,397
4	Risk weighted assets – operational risk	15,110	14,817
5	Total Risk Weighted Assets – Banking Book + Operational Risk	374,290	318,214
6	Minimum required capital to support RWAs of banking book and operational risk	41,172	35,004
6.1	i) Minimum required Tier I capital for banking book and operational risk	33,686	28,639
6.2	ii) Tier II capital required for banking book and operational risk	7,486	6,364
7	Tier I capital available for supporting trading book	1,327	8,811
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets – trading book	2,630	4,732
10	Total capital required to support trading book	289	520
11	Minimum Tier I capital required for supporting trading book	82	148
12	Total Regulatory Capital	42,499	44,409
13	Total Risk Weighted Assets – Whole bank	376,920	322,946
14	BIS Capital Adequacy Ratio	11.28%	13.75%

ii. Capital adequacy ratio (RO '000)

	2020	2019
Total risk weighted assets	376,920	322,946
Total eligible capital	42,499	44,409
Capital adequacy ratio	11.28%	13.75%

iii. Ratio of total capital to total assets (RO '000)

	2020	2019
Total capital	42,499	44,409
Total assets	394,945	405,354
Total capital to total assets	10.76 %	10.96 %

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

iv. Capital requirements according to different risk categories for each Shariah compliant financing contract (RO '000)

	2020	2019
Balances with Central bank of Oman	-	-
Sovereign	91	90
Due from Banks	84	173
Murabaha receivables	4,726	5,169
Musharaka receivables	19,156	15,897
Ijarah assets – Ijarah Muntahia Bittamleek	14,043	10,555
Service Ijarah	55	61
Credit card receivables	62	38
Other Assets & off balance sheet items	1,293	1,391
Total	39,510	33,374

4. RISK MANAGEMENT OF THE BANK

Risk Management Principles

Risk is an inherent part of the Bank's business activities. The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions and its credit and operational activities do not expose it to losses that could threaten its survival.

The Bank has an independent Risk Management Department (RMD) that monitors the core risk areas and reports to the Executive Risk Committee (a Board Committee). RMD assists in ensuring that risk exposures are managed within the Board approved risk appetite. Primary responsibility for the management of risk lies with the business and operational areas are responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank's risk management department reports directly to the Executive Risk Committee (a Board Committee). The Bank's Risk Management includes the following four elements:



Risk framework

The Board of Directors (BOD) ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Islamic Window is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis. Further, the Sharia risk related compliance are one of the KRIs that the Islamic window has been monitoring as part of other KRIs. The following Board and Management committees manage and control material risks to the Bank:

Board Committees:

- Audit & Compliance Committee
- Executive & Credit Committee
- Executive Risk Committee
- Nomination & Remuneration Committee
- Head Office Project Committee

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

4. RISK MANAGEMENT OF THE BANK *(Continued)*

Management Committees:

- Credit & Investment Committee
- Assets & Liabilities Committee
- Credit Risk Management Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Special Assets Committee

Policies and Procedures:

The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive and Credit Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

- | | |
|---|---|
| 1. Anti-Money Laundering Manual | 23. Fraud Risk Management Policy |
| 2. Personal Account Dealing Policy | 24. Fraud Risk Management Framework |
| 3. New Product Policy and Procedures | 25. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 26. Market Risk Policy |
| 5. Compliance Policy | 27. Risk Management-Approach & Framework |
| 6. Corporate Communication and Marketing Policy | 28. Social and Environment Management System Policy |
| 7. Corporate Governance Policy | 29. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 30. Asset Management Policy |
| 9. Dividend Policy | 31. Brokerage Policy |
| 10. Expenses Policy | 32. FATCA Policy |
| 11. Capital Management Policy | 33. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 34. Profit Distribution Policy |
| 13. Board Remuneration Policy | 35. Charity Policy |
| 14. Financial Institutions Policy | 36. Zakah Policy |
| 15. Human Resources Policy | 37. Cost Sharing Policy |
| 16. Outsourcing Policy | 38. Segregation of Funds Policy |
| 17. Code of Business Conduct | 39. Social Media Policy |
| 18. Information Security Management Policy | 40. Shari'a Governance Manual |
| 19. Business Continuity Management Policy | 41. Electronic Banking Policy |
| 20. Credit and Investment Policy | 42. Classification and Measurement Financial Assets and Liabilities |
| 21. Operational Risk Management Framework | 43. Sanctions Policy |
| 22. Operational Risk Management Policy | |

All policies are subject to periodical reviews. Any change in law or regulation is deemed to be automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

The Islamic window has exposure to the following risks:

5. CREDIT RISK

Credit risk arises from the potential financial loss resulting from customers/counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Islamic window evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Islamic window, and proactive management is critical to the Islamic window's long-term success.

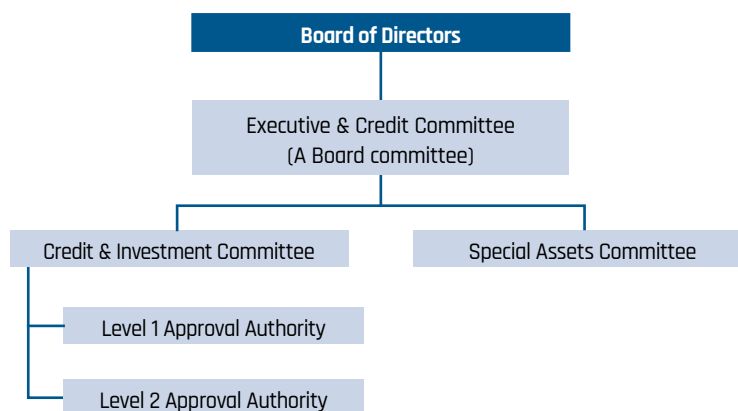
The Islamic window has a comprehensive due diligence system for approving credit facilities, and well-defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

All corporate, bank and sovereign credit requires independent credit risk review to be approved by authorities, from Level II to the BOD, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the Central Bank of Oman. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards through a diligent Credit Review function and post approval review of financing and investment assets through a financing review mechanism (LRM) function and the periodic review and updating of credit policies, guidelines and procedures.

The Bank also has a robust system of borrowers' risk ratings that assesses the default risk of corporate borrowers and monitors ratings changes periodically. Ratings by the major credit rating agencies are also used whenever available.

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the BOD. The following is the structure of credit risk approval:-



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full BOD based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks/FIs or Sovereigns, the legal nature of the borrowers and their credit risk rating.

Transaction risk is concerned with the credit risk of a single counter-party. Risk Management ensures that credit is underwritten according to approved standards and that all risks are highlighted in the credit risk review, including policy exceptions. It includes analyzing and reporting on the nature of on- and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities.

Concentration risk arises when the Bank disburses a significant amount of credit to a few borrowers or borrowers located in the same geographical location or those exposed to similar economical/political/other risks. To safeguard against concentration risk, sectoral limits have been set for ensuring that the Islamic window is having a well-diversified portfolio, the same is being reviewed by the Bank on a regular basis.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

Impairment policy

As a matter of policy, Islamic window creates allowance for impairment of financing contracts promptly and in a consistent manner. The Islamic window has implemented IFRS 9 "Financial Instrument" accounting norm, based on which impairment is assessed on a forward looking expected credit loss (ECL) basis, as required by CBO.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

All financing assets are classified into one of five risk classification categories, Standard, Special Mention (past due between 60 - 90 days), Substandard (past due between 90 - 180 days), Doubtful (past due between 180 - 365 days) and loss (past due for 365 days or more), as prescribed by CBO.

The bank has established a policy to perform an assessment on a monthly basis whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the bank groups its financing exposure into Stage 1, Stage 2 and Stage 3, as classified below:

Stage 1: When financing are first recognized, the bank recognizes an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from stage 2.

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

Stage 3: Financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs. The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.
- in case of Treasury and interbank balances, when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Quantitative Disclosure:

i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)

Type of credit exposure	Average Gross Exposure			Total Gross Exposure		
	31-Dec-20	31-Dec-19	% of total financing	31-Dec-20	31-Dec-19	% of total financing
Balances with Central bank of Oman	15,944	31,870	4%	4,880	27,008	1%
Sovereign	28,792	21,747	7%	26,027	31,557	6%
Banks	3,229	3,120	1%	3,817	2,641	1%
Murabaha receivables	45,423	47,377	11%	43,364	47,481	11%
Musharaka receivables	165,472	141,944	40%	176,316	154,627	44%
Ijarah assets – Ijarah Muntahia Bittamleek	131,802	128,760	32%	129,173	134,431	32%
Service Ijarah	419	287	0%	497	341	0%
Credit card receivables	558	545	0%	563	553	0%
Other Assets & off balance sheet items	18,890	13,665	5%	19,672	18,109	5%
Total	410,529	389,315	100%	404,309	416,748	100%

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

ii) Credit exposure by risk weighted assets: (RO '000)

Type of credit exposure	Gross Balance	As of 31 December 2020
		Risk Weighted Assets
Balances with Central bank of Oman	4,880	-
Sovereign	26,027	824
Banks	3,817	763
Murabaha receivables	43,364	42,967
Musharaka receivables	176,316	174,148
Ijarah assets – Ijarah Muntahia Bittamleek	129,173	127,668
Service Ijarah	497	497
Credit card receivables	563	563
Other Assets & off balance sheet items	19,672	11,750
Total	404,309	359,180

Type of credit exposure	Gross Balance	As of 31 December 2019
		Risk Weighted Assets
Balances with Central bank of Oman	27,008	-
Sovereign	31,557	818
Banks	2,641	1,703
Murabaha receivables	47,481	46,992
Musharaka receivables	154,627	144,517
Ijarah assets – Ijarah Muntahia Bittamleek	134,431	95,953
Service Ijarah	341	341
Credit card receivables	553	553
Other Assets & off balance sheet items	18,109	12,520
Total	416,748	303,397

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

iii) Credit exposure by business unit: (RO '000)

			As of 31 December 2020	
Credit exposure	Business Unit	Gross Balance	Risk Weighted Assets	
Balances with Central bank of Oman		4,880	-	
Sovereign		26,027	824	
Banks		3,817	763	
Murabaha receivables	SME	2,162	1,815	
	Corporate	4,266	4,216	
	Retail	36,936	36,936	
Musharaka receivables	SME	1,543	1,187	
	Corporate	144,441	142,629	
	Retail	30,332	30,332	
Ijarah assets – Ijarah Muntahia Bittamleek	SME	2,108	1,618	
	Corporate	51,756	50,741	
	Retail	75,309	75,309	
Service Ijarah	Retail	497	497	
Credit Card Receivable	Retail	563	563	
Other Assets & off balance sheet items		19,672	11,750	
Total		404,309	359,180	

As of 31 December 2019

Credit exposure	Business Unit	Gross Balance	Risk Weighted Assets	
Balances with Central bank of Oman		27,008	-	
Sovereign		31,557	818	
Banks		2,641	1,703	
Murabaha receivables	SME	2,001	1,511	
	Corporate	4,078	4,079	
	Retail	41,402	41,402	
Musharaka receivables	SME	2,150	1,613	
	Corporate	135,285	134,191	
	Retail	17,192	6,526	
Ijarah assets – Ijarah Muntahia Bittamleek	SME	2,319	1,776	
	Corporate	54,491	54,491	
	Retail	77,621	39,685	
Service Ijarah	Retail	341	341	
Credit Card Receivable	Retail	553	553	
Other Assets & off balance sheet items		18,109	12,520	
Total		416,748	303,397	

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

iv) Geographic distribution of exposures by major types of credit exposure: (RO '000)

Type of Credit Exposure	As of 31 December 2020						Total
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	
Balances with Central bank of Oman	4,880	-	-	-	-	-	4,880
Sovereign	25,203	-	-	-	-	824	26,027
Banks	3,482	128	-	-	-	207	3,817
Murabaha receivables	43,364	-	-	-	-	-	43,364
Musharaka receivables	176,316	-	-	-	-	-	176,316
Ijarah assets – Ijarah Muntahia Bittamleek	129,173	-	-	-	-	-	129,173
Service ijarah	497	-	-	-	-	-	497
Credit card receivables	563	-	-	-	-	-	563
Other Assets & off balance sheet items	19,672	-	-	-	-	-	19,672
Total	403,150	128	-	-	-	1,031	404,309

Type of Credit Exposure	As of 31 December 2019						Total
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	
Balances with Central bank of Oman	27,008	-	-	-	-	-	27,008
Sovereign	30,739	-	-	-	-	818	31,557
Banks	2,174	82	-	-	-	385	2,641
Murabaha receivables	47,481	-	-	-	-	-	47,481
Musharaka receivables	154,627	-	-	-	-	-	154,627
Ijarah assets – Ijarah Muntahia Bittamleek	134,431	-	-	-	-	-	134,431
Service ijarah	341	-	-	-	-	-	553
Credit card receivables	553	-	-	-	-	-	341
Other Assets & off balance sheet items	18,109	-	-	-	-	-	18,109
Total	415,463	82	-	-	-	1,203	416,748

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

v) Industry or counter party type distribution of financing exposures, broken down by major types of credit exposure: (RO '000)

As of 31 December 2020

Economic Sector	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Import Trade	4,066	3,785	105	-	-	7,956	134
Wholesale & Retail Trade	820	24,410	5,563	-	-	30,793	-
Mining & Quarrying	245	-	-	-	-	245	-
Construction	570	57,704	42,900	-	-	101,174	12,582
Manufacturing	277	10,672	650	-	-	11,599	-
Transport & Communication	88	23	27	-	-	138	-
Electricity, Gas & Water	-	-	729	-	-	729	-
Services	362	49,376	3,890	-	-	53,628	5
Personal Financings	36,936	30,332	75,309	497	563	143,637	-
Agriculture & Allied Activities	-	14	-	-	-	14	-
Total	43,364	176,316	129,173	497	563	349,913	12,721

As of 31 December 2019

Economic Sector	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Import Trade	3,885	3,809	105	-	-	7,799	-
Wholesale & Retail Trade	994	13,071	6,995	-	-	21,060	-
Mining & Quarrying	334	23	7	-	-	364	3,651
Construction	184	63,635	43,694	-	-	107,513	-
Manufacturing	71	10,773	1,493	-	-	12,337	3,642
Transport & Communication	109	67	93	-	-	269	1,007
Services	502	46,037	4,423	-	-	50,962	-
Personal Financings	41,402	17,193	77,621	341	553	137,110	10,077
Agriculture & Allied Activities	-	19	-	-	-	19	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

vi) Residual contractual maturity of the financing portfolio, broken down by major types of credit exposure: (RO '000)

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets –		Credit card receivables	As of 31 December 2020	
			Ijarah Muntahia Bittamleek	Service Ijarah		Total	Off Balance Sheet Exposure
Up to 1 month	4,078	-	44	-	563	4,685	12,721
1-3 Months	150	1	11	-	-	162	-
3-6 Months	214	3	97	-	-	314	-
6-9 Months	233	3,562	905	-	-	4,700	-
9-12 Months	302	27	74	5	-	408	-
1-3 Years	5,828	2,151	1,826	57	-	9,862	-
3-5 Years	12,191	7,229	5,796	43	-	25,259	-
Over 5 Years	20,368	163,343	120,420	392	-	304,523	-
Total	43,364	176,316	129,173	497	563	349,913	12,721

* represents notional exposure as per financial statements

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets –		Credit card receivables	As of 31 December 2019	
			Ijarah Muntahia Bittamleek	Service Ijarah		Total	Off Balance Sheet Expo- sure
Up to 1 month	1,893	720	460	-	277	3,350	1,078
1-3 Months	1,879	1,244	1,532	9	276	4,940	2,614
3-6 Months	4,481	2,202	2,115	13	-	8,811	1,618
6-9 Months	2,087	5,817	2,407	13	-	10,324	3,314
9-12 Months	2,475	2,074	2,195	13	-	6,757	1,527
1-3 Years	15,491	19,748	16,749	100	-	52,088	8,226
3-5 Years	11,093	20,671	17,068	75	-	48,907	-
Over 5 Years	8,082	102,151	91,905	118	-	202,256	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

* represents notional exposure as per financial statements

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

vii) Total financing broken down by major industry or counterparty type: (RO '000)

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	As of 31 December 2020	
					Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	7,956	7,956	-	1,166	782	-
Wholesale & Retail Trade	30,793	-	230	-	72	-
Mining & Quarrying	245	16	3	9	(4)	-
Construction	101,174	6,012	454	1,190	630	-
Manufacturing	11,599	2,118	17	1,023	777	-
Transport & Communication	138	-	11	-	(7)	-
Electricity, Gas & Water	729	-	56	-	56	-
Services	53,628	54	463	27	357	-
Personal Financing	143,637	866	582	416	448	-
Agriculture & Allied Activities	14	-	1	-	(1)	-
Total	349,913	17,022	1,817	3,831	3,110	-

* Stage 3 ECL include suspended profit of RO 1.024 mn

* Stage 1&2 includes additional ECL overlays of RO 0.330 mn

As of 31 December 2019

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	As of 31 December 2019	
					Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	7,799	105	330	54	12	-
Wholesale & Retail Trade	21,059	13	152	6	62	-
Mining & Quarrying	364	24	5	11	16	-
Construction	107,513	-	1,014	-	327	-
Manufacturing	12,337	-	263	-	258	-
Transport & Communication	269	-	18	-	11	-
Services	50,962	45	112	21	106	-
Personal Financing	137,110	833	126	424	(13)	-
Agriculture & Allied Activities	19	-	2	-	2	-
Total	337,433	1,020	2,022	516	781	-

* Stage 3 ECL include suspended profit of RO 0.040 mn

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

viii) Amount of impaired financing broken down by significant geographical areas including, with the amounts of expected credit loss/specific and general allowances related to each geographical area: (RO '000)

Countries	As of 31 December 2020					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Oman	349,913	17,022	1,817	3,831	3,110	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	349,913	17,022	1,817	3,831	3,110	-

* Stage 3 ECL include suspended profit of RO 1.024 mn

* Stage 1&2 includes additional ECL overlays of RO 0.330 mn

Countries	As of 31 December 2019					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Oman	337,433	1,020	2,022	516	781	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	337,433	1,020	2,022	516	781	-

* Stage 3 ECL include suspended profit of RO 0.040 mn

ix) Movement of gross financing during the year: (RO '000)

Details	As of 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	295,384	41,029	1,020	337,433
Migration / changes (+ / -)	(43,147)	27,487	15,660	-
New financings	38,261	497	529	39,287
Recovery of financings	(22,832)	(3,788)	(187)	(26,807)
Financing Written Off	-	-	-	-
Closing Balance	267,666	65,225	17,022	349,913

Details	As of 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	273,553	26,207	631	300,391
Migration / changes (+ / -)	(20,268)	19,656	612	-
New financings	77,033	25,997	42	103,072
Recovery of financings	(34,934)	(30,831)	(265)	(66,030)
Financing Written Off	-	-	-	-
Closing Balance	295,384	41,029	1,020	337,433

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

x) Past due and impaired financing: (RO '000)

As of 31 December 2020

	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Expo- sure *
Neither past due not impaired	36,644	115,112	125,606	497	518	318,377	12,721
Past due but not impaired	2,386	9,302	2,782	-	44	14,514	-
Past due and impaired	4,334	11,902	785	-	1	17,022	-
Total	43,364	176,316	129,173	497	563	349,913	12,721

As of 31 December 2019

	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Expo- sure *
Neither past due not impaired	40,175	66,087	103,230	336	524	210,352	18,374
Past due but not impaired	7,034	88,540	30,454	5	28	126,061	3
Past due and impaired	272	-	747	-	1	1,020	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

Credit risk- Disclosures for portfolios subject to the standardized approach.

Qualitative disclosure

The Islamic window classifies its financial assets in one of the following categories:

- Financing receivables;
- Ijarah assets – Ijarah Muntahia Bittamleek;
- Equity & debt – type instruments; and
- Credit Card receivable

Financing receivables are principally divided into following Islamic products:

- **Murabaha:** An agreement whereby the Islamic Window sells to a customer a commodity or a property which the Islamic Window has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.
- **Financing Ijarah:** An agreement whereby the Islamic Window (lessor) leases an asset or services to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period.
- **Musharaka:** An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

Credit Risk Mitigation (CRM)

Credit Risk Mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on-and off-balance sheet netting (and the extent to which the Islamic Window makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

The Islamic window normally accepts the following types of collateral:

- Hamish Jiddiyah, Urbun, Profit sharing investment accounts.
- Real estate comprising income-producing and non-income-producing assets.
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees/standby LC issued by acceptable Banks
- Funds subject to meeting approval criteria
- assignment of receivables
- Inventories

The Islamic window also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable, based on adequate assessment of their creditworthiness. In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Islamic window also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the insurance policy is assigned in the Islamic window's favor. Real estate collateral is valued on regular intervals on need basis based on the assessment of risk and economic scenario prevailing.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The management also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. A strong credit administration process ensures effective compliance with terms of approval and documentation.

The simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic window stands in possession of cash collateral of RO 1.094 mn; after application of haircut (0%) to the collateral the exposure stands at RO NIL. The Islamic window has not considered any financial guarantee under credit risk mitigation as of 31 December 2020.

Particulars	RO '000
Gross Exposure - banking book	404,309
Credit risk mitigation	(1,094)
Risk weight impact - for banking book	(44,035)
Risk weighted assets - banking book	359,180
Capital charge for credit risk	39,510

Quantitative Disclosures:

					As of 31 December 2020	
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification		
1 – 6	746	-	Standard	Stage 1 & 2		
7	1,071	-	Special mention	Stage 3		
8 – 10	3,831	-	Non-performing	Stage 3		
Total	5,648	-				
					As of 31 December 2019	
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification		
1 – 6	430	-	Standard	Stage 1 & 2		
7	1,592	-	Special mention	Stage 3		
8 – 10	516	-	Non-performing	Stage 3		
Total	2,538	-				

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

6. MARKET RISK:

Qualitative disclosure

Market Risk is the risk of loss resulting from fluctuations in profit rates, asset prices, foreign exchange rates or commodity prices. Substantially all of the Islamic window businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Islamic window. The objective of market risk management is to control risks within acceptable parameters, while optimizing the returns. The Bank has a Market Risk Policy that provides detailed guidelines for management of market risks. The Islamic window uses a combination of risk sensitivities, stress testing, etc. to manage market risks and establish limits. The Islamic window does not take any positions in commodities. All relevant risks and mitigation strategies are discussed below

Rate of Return risk in banking book (RRRBB)

Rate of return risk arises from the possibility that changes in rates of return will adversely affect the economic value of equity or the net income. The Islamic window is exposed to this risk as a result of mismatches or gaps in the rate of return profile of balance sheet assets and funds provided by investment account holders and wakala depositors. While the return on profit sharing agreements is not guaranteed, in case the Islamic window does not distribute profit in line with market rates, it is exposed to Displaced Commercial risk.

The Islamic window's overall goal is to manage rate of return sensitivity so that movements in rates of return do not adversely affect the Islamic window's net income and market value of equity. The Islamic window manages this risk by matching the re-pricing profile of assets and liabilities through various risk management strategies, utilizing tools such as gap analysis and duration. ALCO reviews the risk profile and sensitivities on a monthly basis within the risk appetite approved by the Board of Directors. Profit bearing assets (net of provision) and liabilities according to repricing bucket are as follows:

As of 31 December 2020							
Particular	Effective profit rate	within 3	4 to 12	1 to 5 years	More than	Non-sen-	Total
		months	months		5 years	sitive to profit rate	
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS							
Cash and balances with Central Bank of Oman	-	-	-	-	-	9,283	9,283
Due from banks	-	3,488	-	-	-	-	3,488
Financing Assets	5.47%	11,640	17,821	98,689	216,576	563	345,289
Investments	4.46%	-	-	2,514	26,057	325	28,896
Property and equipment	-	-	-	-	-	1,665	1,665
Other assets	-	-	-	-	-	6,324	6,324
Total profit bearing assets		15,128	17,821	101,203	242,633	18,160	394,945
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	4.71%	10,203	6,000	41,000	-	-	57,203
Equity of investment accountholders and other liabilities	2.91%	116,444	59,969	82,450	-	32,283	291,145
Shareholders fund	-	-	-	-	-	46,597	46,597
Total	-	126,647	65,969	123,450	-	78,880	394,945
Net gap		(111,519)	(48,147)	(22,247)	242,633	(60,720)	-
Cumulative net gap		(111,519)	(159,666)	(181,914)	60,720	-	-

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

6. MARKET RISK *(Continued)*

Particular	Effective profit rate						As of 31 December 2019	
		within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total	
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	
ASSETS								
Cash and balances with Central Bank of Oman	-	-	-	-	-	31,500	31,500	
Due from banks	-	467	-	-	-	-	467	
Financing Assets	5.82%	8,311	25,764	98,997	201,310	553	334,935	
Investments	3.06%	-	11,191	2,476	20,386	277	34,330	
Property and equipment	-	-	-	-	-	1,505	1,505	
Other assets	-	-	-	-	-	2,617	2,617	
Total profit bearing assets		8,778	36,955	101,473	221,696	6,452	405,354	
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Due to banks	4.76%	30,630	31,007	81,000	-	-	142,637	
Equity of investment accountholders and other liabilities	2.59%	109,616	30,196	40,957	-	36,637	217,406	
Shareholders fund	-	-	-	-	-	45,311	45,311	
Total	-	140,246	61,203	121,957	-	81,948	405,354	
Net gap		(131,468)	(24,248)	(20,484)	221,696	(45,496)	-	
Cumulative net gap		(131,468)	(155,716)	(176,200)	45,496	-	-	

Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Islamic window may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions within regulatory and internal limits. All foreign exchange exposures are centrally managed by the Treasury and are daily marked to market. Internal Limits have been assigned with respect to overnight open exposures, stop loss limits and authorized currencies to monitor and control foreign exchange exposures.

The foreign exchange transactions carried out by the Bank are on behalf of customers and are on a back-to-back basis. No proprietary foreign exchange positions are assumed by the Islamic window.

The Net open position in all foreign currencies stands at OMR 4.562 mn (OMR 4.448 mn position is in effectively pegged currencies) as on 31 December 2020.

Investment Price Risk

Price risk is the risk of losses from decrease in the market value of individual investments. Each investment is approved after rigorous due diligence and exposures are monitored against prudent exposure limits. The Islamic window does not maintain any trading positions in its portfolio as of 31 December 2020.

The Islamic window's investments in non-trading instruments are monitored within the overall limits and restrictions prescribed by CBO from time to time, and only in Sharia compliant product categories. The fair value of equity investments as of 31 December 2020 is RO 0.325 mn with cost amounts to RO 0.336 mn. The Islamic window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2020 is RO 28.572 mn with a cost amounts to RO 28.777 mn.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

6. MARKET RISK *(Continued)*

Investment Price Risk *(Continued)*

The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors, as a percentage of the Capital Base of the Bank, which apply to the Islamic window as well. All investment proposals are routed through the ALCO to the relevant approval authority. The Islamic window's appetite for private subscriptions and unlisted / unquoted equity is low, and such proposals are adequately justified on a case by case basis, and has to be approved at least by the Executive Credit Committee and by the Board if it exceeds limits structured as a proportion of the Bank's Capital Base.

The Bank tries to achieve reasonable diversification of its investment portfolio among the economic sectors, and does not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

- a) Trading and retailing
- b) Real Estate development, management and rental income
- c) Construction / contracting and building materials
- d) Travel / tourism, hotels, restaurants, entertainment, health services and education
- e) Warehousing / storage, logistics, supply management and transportation, utilities and Telecom
- f) Oil and Gas
- g) Banking and Financial Services
- h) Conglomerates or Holding Companies investing in any of the above business lines

Capital Charge:

The Capital Charge for market risk exposures is measured based on Standardized approach in accordance with the guidelines issued by CBO under Circular BM1009. The Islamic window has implemented standardized duration based approach to arrive at capital requirement for bonds and debt securities. The capital charge for foreign exchange is computed based on three month daily average of sum of net long or short positions held by the Bank.

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2020 is given below:

Type of risk (RO '000)	2020	2019
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	210	379
Percentage of NOP to regulatory capital	10.73%	5.47%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 2.630 million.

Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity ('000)	
		2020	2019
Regional listed Sukuk	10%	+/- 2,775	+/- 3,157
Foreign listed Sukuk	10%	+/- 82	+/- 247
Listed equities	10%	+/- 32	+/- 27

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK

Qualitative Disclosure

The Islamic window defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Islamic Window:

- ~ The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- ~ Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- ~ As per the CBO directives, the Bank keeps at least 5% of its demand and time deposits with CBO in the form of clearing balances.
- ~ Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Islamic window's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The risk management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and funding policy and a contingency liquidity plan have been established by the Bank, which applies to its Islamic window as well.

Liquidity and Funding Policy

The liquidity and funding policy of the Bank, which applies for its Islamic window as well, is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's Asset Liability Committee (ALCO) reviews the Liquidity and funding Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position and that of its Islamic Window. The key ones are:

- Placing limits on maturity mismatches
- Maintaining a stock of liquid assets
- Diversification of liabilities
- Access to wholesale markets
- Multi-currency liquidity management

The financing ratio, which is the ratio of the financing to deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Islamic window also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Islamic window also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity.

The maturity profile of the assets and funding side at the year-end are based on contractual repayment arrangements. The details of the same are provided in note 32.2 of Islamic window financial statements.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2020 was 92.5%.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK *(Continued)*

Details of the reported financing ratio for the year are as follows:

Ratios	2020	2019
Financing ratio	%	%
Year end	88.18	84.92
Maximum for the year	91.06	86.94
Minimum for the year	84.18	82.61
Average for the year	87.84	86.02
Other Ratios		
Financing to customers to total assets	87.43	82.63
Equity to total assets	11.80	11.18
Liquid assets to total assets	9.15	12.39
Liquid assets to short term liabilities	25.46	26.15
Prime assets to volatile liabilities	18.79	20.27
Liquidity Coverage Ratio	195.33	128.60
Net Stable Funding Ratio	110.04	108.73

Stock of Liquid Assets

An adequate stock of high quality liquid assets provides the Islamic window with the capacity to meet its obligations while any underlying problems affecting liquidity are addressed.

Such assets are clearly identified, their role defined and minimum holding levels are established and agreed by the ALCO. The degree of diversification of the Liquid Assets portfolio is reviewed by the ALCO on a monthly basis.

As per the guidelines of CBO, the bank is required to maintain a Liquidity Coverage Ratio (LCR) of at least 100%. Further, the Net Stable Funding Ratio (NSFR) prescribed at a minimum of 100%. The Islamic window has implemented a more stringent internal requirement for these ratios which are reviewed by ALCO each month. A detailed disclosure on the position of the Bank in regards to these ratios is contained later in this report.

Diversification of liabilities

The Bank and Islamic window seek to maintain a diversified funding base, and monitor the degree of diversification in its liability base on a monthly basis. Depositor concentration is reviewed by the ALCO on a monthly basis.

The liquidity and funding policy recognizes the inherent value of the Bank's term depositors. The Islamic window seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Islamic window also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The exposure to such deposits is reviewed by the ALCO on a monthly basis.

Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Islamic window addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Islamic window assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK *(Continued)*

The Treasurer along with the Head of Risk Management derives and documents the Maturity Profile behavioral adjustments, based on redemptions and withdrawal requests. These are communicated to the ALCO for discussion and acceptance.

Limit Breaches

All liquidity limit (internal) breaches are notified to the Treasurer, the Head of Finance, Head of Risk Management and ALCO members at the earliest possible opportunity. The notification includes:

- The cause of the breach
- The remedial action taken
- The expected duration of the breach if still current.

Immediate action is taken to remedy the breach. Should such action not be possible, the ALCO and the CEO are notified.

Liquidity Contingency Plan:

It is imperative for the Islamic window to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP serves as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations.

Islamic window has adopted quantitative and qualitative key warning indicators which is monitored by Market & Liquidity Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking, DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

8. OPERATIONAL RISK

Operational Risk Framework

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Islamic Window's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Islamic Window's specific products and business lines; they are more specific to the Islamic window's operations than the risks due to external events. Operational risks faced by the Islamic window include IT Security, telecom failure, frauds, and operational errors.

Operational risk is identified and controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Islamic Window's internal controls and its ability to minimize the impact of operational risks. The Operational Risk Committee that is the owner of this Framework oversees the Islamic window.

The Islamic window identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Islamic window's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Operational Risk Framework *(Continued)*

The Islamic window has identified the following operational risks and has been implementing an effective framework to manage them:

- Fraud Risk
- Process Risk
- Legal Risk
- People Risk
- Compliance Risk (including risk of Shari'a Non-Compliance)
- IT Risk
- Physical Security Risk

Control and Mitigation of Operational Risk

The Islamic window and the Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Islamic window has implemented Operation Risk Self-Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Islamic window also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis. The Islamic window ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Islamic window ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Islamic window takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Islamic window's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

Fraud Risk Management

The Islamic window takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavor to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Islamic window.

Reputation Risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Islamic window's profitability or image. Reputational risk is one of the most complex risks to manage in view of unpredictability, constant change in the operating environment, personnel turnover and multi-cultural environment that the Bank operates in. The Islamic window identifies, measures, monitors and controls reputation risk arising in the following areas:

- Customer service
- Perception of stakeholders regarding Islamic window's commitment to their interests
- Quality of products, services and sales practices
- Reporting to stakeholders and external agencies
- Accuracy of information in communications to the public

There are policies and procedures in place to manage and monitor reputation risk.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Reputation Risk *(Continued)*

Social Media risk is an important element of Reputation risk that has emerged with the popularity of social media and digital technologies. The Bank recognizes the importance of effectively managing the interests of the Bank and its customers from this dynamic and unregulated category of risk. The Corporate Communication Department (CCD) is responsible for managing the Bank's social media activities within the guidelines of 'Social Media Policy'.

Business Continuity Risk

The Bank has a documented Business Continuity Policy (BCP) and plan which outlines the Business Continuity process to be followed in a disaster scenario, and undertakes comprehensive testing of all its critical systems and processes; this BCP also applies to the processes and systems pertaining to the Islamic window. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

Business Continuity Test

During the year 2020, the Bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Concentration Risk

Concentration risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from large exposure to counterparty, a sector or country. Concentration risk can be mitigated by formulating limits, by a thorough check on counterparty's quality or adequate collateral support etc.

As part of ICAAP, thresholds for exposure concentrations has been set up, this will trigger additional capital requirements based on concentration in terms of large exposures to counterparties, sector exposure concentration (excluding retail lending) and geographical exposure concentration (other than to Oman).

Information Security Risk

The Islamic window has adopted an Information Security Management System (ISMS) /process and a framework by which the bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times.

Compliance Risk (including risk of Shari'a Non-Compliance)

Compliance risk is the potential for financial losses, legal penalties, regulatory sanctions and loss to Bank's reputation that result from non-compliance with laws and regulations that are applicable on the Bank. The Board of Directors have direct responsibility for overseeing the management of the Bank's compliance risk. Senior management are thereafter responsible for ensuring effective management of this risk. They are supported by the Compliance function of the Bank which is an independent function that reports, and has direct access to Board Audit & Compliance Committee. The Bank's 'Compliance Policy' sets the guidelines to manage this important risk type.

Shari'a Governance framework ensures Shari'a compliance at all times and at all levels. Shari'a compliance unit facilitates the senior management in ensuring compliance with Shari'a and Islamic banking stipulations of the Central Bank in all its business activities, operations and transactions. Shari'a compliance unit is extensively involved before a new product or transaction is approved and monitors the implementation of guidelines issued by Shari'a Supervisory Board (SSB). No new product class or transaction type is executed without consulting the Shari'a compliance unit and getting a formal approval from the SSB.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Model Risk

Model risk is the potential for ineffective decision making or regulatory non-compliance resulting from the use of insufficiently accurate models, particularly in the areas such as measuring, pricing and managing risks. These models include, but are not limited to, capital calculation model, facility and obligor risk rating models, models to calculate expected credit losses and provisioning, pricing models for investments etc. The Bank manages this risk by following best-practices in regards to governance, data management, model validation and back-testing of its key models.

Other Risks

The Islamic window is also exposed to other risks such as, strategic risk, business cycle risk, legal risk, residual risk, settlement risk etc. However, currently these risks are not significant to the Bank. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Operational risk capital charge and risk weighted amount

The Islamic window follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income includes Net income from financing activities gross of any provisions and depreciation expense on ijarah assets (+) Net income from investment activities (+) fee income (-) investment account holders share of income (-) extraordinary / irregular items of income.

Item (RO '000)	2020	2019	2018
Net Income from financing and investing activities	18,654	19,067	16,588
Other income – net	747	949	619
Gross Income	19,401	20,016	17,207
Net return on equity of unrestricted investment accountholders	(1,377)	(1,181)	(1,312)
Profit on wakala deposits and due to banks	(10,506)	(10,965)	(7,973)
Net Operating Income	7,518	7,870	7,922
Average Income	7,770		
Gross Income times of Alpha (15%)	1,166		
Operational risk based on Basic Indicator Approach	14,569		

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,209 million as of 31 December 2020. The Risk weighted assets for operational risk as per Basel II is RO 15.110 million.

9. DISPLACED COMMERCIAL RISK

Displaced commercial risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor's rates.

The Islamic window has in place a Profit Distribution Policy which specifies detailed guidelines for creation of PER and IRR to mitigate the DCR. The Islamic window may forgo its fee in case DCR arises. Rates of returns are benchmarked with other Banks in the market and reviewed on periodic basis.

An analysis of distribution during the year to IAH's by Islamic window is as follows:

	2020	2019	2018	2017	2016
Total Profits available for distribution	7,596	6,538	5,948	5,196	4,577
Profit Sharing:					
- Profit to Shareholders	5,501	4,554	3,773	3,616	3,938
- Share of IAH	1,377	1,181	1,312	1,580	639
- Mudarib Share	718	803	863	783	447

During the year ended December 2020 there were no appropriations made towards Profit equalization and Investment risk reserve.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

10. INVESTMENT ACCOUNT HOLDERS

The Islamic window receives deposits by Investment Account Holders (IAH) under mudaraba contract and Wakala bil Istithmar contract. The Islamic window has Unrestricted Account Holders only.

Investment account holders under mudaraba contract

As per the mudaraba contract the investment account holders authorizes the Islamic window to invest the account holders' funds in a manner which the Islamic window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement, Islamic window can commingle the equity of investment account holders with its own funds (owner's equity) or with other funds the Islamic window has right to use (current accounts or any other funds not received under Mudaraba mode). As at year end the Islamic window does not have any investment account under restricted mudaraba contract.

Net profit is allocated to the pool participants based on weighted average balance. Participation factor, weights of profit sharing ratios are pre-decided by the management of the bank and are initiated to the investors. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

Investment account holders under wakala

Under Wakala, Islamic window accepts funds from investors as Wakeel and invests in Shari'a compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Islamic window as Wakeel as incentive fee. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala bil Istithmar agreement, otherwise the loss would be borne by the investor or Muwakil.

Profit Distribution Mechanism between Shareholders & Depositors under the Common Pool

Participation factor, Weights or profit-sharing ratios are pre decided by the management of the Bank. In case of any change, after approval by the Shariah Supervisory Board these are intimated to the investors before start of the month. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

The Islamic window has a single pool of comingled assets where the funds of investment accountholders are invested. The Investment Profits are distributed between Mudarib and IAH in the following percentages:

	2020	2019
Unrestricted Investment Accounts Share	70%	60%
Mudarib Share	30%	40%

The Islamic window does not charge Investment accountholders for operating expenses incurred.

Mudaraba fee

Mudaraba fee will be deducted from allocated profit as per the pre-agreed ratio as approved by SSB which will be advised to customers through website or by posting in branches. Islamic window can create reserves as allowed by SSB and CBO for smoothing of returns to investors and risk management purposes. Two types of reserves allowed are Profit Equalization reserve (PER) and Investment Risk reserve (IRR).

Investment Risk Reserve (IRR)

This reserve is created out of the depositors' share of profit out of the Net Profit from the Common Pool. Purpose of the reserve is to offset the effect of future losses. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. The basis for computing the amounts to be appropriated are applied in accordance with SSB directions. This is to secure suitable and competitive return to the depositors in case there are certain extra ordinary circumstances, depressing the return, which were anticipated by the depositors. The disposition of the reserve amount will take place with the prior approval of the SSB. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the depositors with the approval of SSB.

Transfer to or from Profit Equalization reserve (PER)

Percentage to be approved by Bank management subject to internal sharia approval that should be appropriated by Islamic window out of the total common pool profit as per the policy before any distribution takes place, in order to ensure certain level of cushion for the Investment portfolio. Any provisions that are required against the Islamic financing assets or investments will be provided in the books as per the policy which will be in adherence to the central bank revised provisioning policy. The balance of the PER shall also be maintained as a current account.

No PER has been created and no transfer has been made during the year ended December 2020.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

10. INVESTMENT ACCOUNT HOLDERS *(Continued)*

Transfer to or from (IRR)

In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Bank's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

No IRR has been created and no transfer has been made during the year ended December 2020.

Assignment of a portion of shareholders' profit to depositors

If required, the Islamic window may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

No assignment of shareholder profit to depositors has been made during the year ended December 2020.

I. Equity of Investment Accountholders – by type (RO '000)

Type	Equity of IAH	
	2020	2019
Saving & Call accounts	98,295	57,291

II. Equity of Investment Accountholders – Ratios

RO in '000	2020	2019	2018	2017	2016
Ratios and Returns					
Amount of total net income	2,841	4,748	6,975	5,758	4,617
Average amount of assets	400,150	380,456	328,640	284,225	260,898
ROA (Net income before IA's distribution / total assets)	0.71%	1.25%	2.12%	2.03%	1.77%
Amount of total net income	1,464	3,556	5,663	4,958	4,433
Average amount of shareholder's equity	45,954	43,307	38,580	35,856	33,397
ROE (Net income after IA's distribution / Shareholders equity)	3.19%	8.23%	14.68%	13.83%	13.30%
PSR - Average Profit Paid					
Profit sharing ratio (Mudarib : Investment Accountholders)	30:70	40:60	40:60	40:60	70:30
Average Profit paid to investment accountholders	1.42%	2.27%	2.60%	2.37%	1.27%
Average Profit distributed per type of IAH					
Savings (RO 100 – RO 999.999)	0.26%	0.25%	0.26%	0.26%	0.22%
Savings (RO 1,000 – RO 9,999.999)	0.44%	0.41%	0.42%	0.42%	0.33%
Savings (above RO 10,000)	0.58%	0.57%	0.59%	0.58%	0.55%
Call Account (RO 100 - RO 999.999)	0.03%	0.25%	0.26%	0.30%	0.33%
Call Account (RO 1,000 - RO 9,999.999)	-	0.43%	0.43%	-	-
Al Nama Smart Saving (RO 100 – RO 2,499.99)	0.58%	0.57%	0.59%	0.58%	0.22%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	2.08%	2.04%	2.10%	2.08%	1.32%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	2.64%	2.59%	2.67%	2.64%	1.54%
Al Nama Smart Saving (500,000 - 999,999.999)	3.19%	3.13%	3.22%	3.19%	1.76%
Al Nama (Above 1,000,000)	3.57%	3.51%	3.60%	3.55%	-
URIA Saving Awqaf	0.43%	0.43%	-	-	-
Qitaf Saving Account	0.25%	0.25%	-	-	-

The Islamic window has no off-balance sheet exposures arising from investment decisions. Further, the Islamic window had no limits imposed on the amount that can be invested in any one type of asset.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

10. INVESTMENT ACCOUNT HOLDERS *(Continued)*

Assignment of a portion of shareholders' profit to depositors *(Continued)*

III. Assets allocation and distribution of profit (RO '000)

	2020	2019	2018	2017	2016
Average Assets Allocated	153,462	117,524	105,209	86,127	62,114
Total profits	7,596	6,538	5,948	5,196	4,577
Profits to Shareholders	5,501	4,554	3,773	3,613	3,985
Profits to IAH	1,377	1,181	1,312	800	184
Mudarib Share	718	803	863	783	408

The calculation and distribution of profit was based on average balances.

There was no appropriation made towards Profit Equalization Reserve and Investment Risk Reserve.

IV. Computation of pool income for the year ended 31 December 2020 (RO '000)

	2020	2019
Pool income		
Income from financing	16,934	18,437
Income from placements	1,720	630
Distribution of Income		
Revenue generated on Mudaraba funds	7,596	6,538
Profit equalization reserve	-	-
Mudarib share	718	803
Investment risk reserve	-	-
Distributable Profit	6,878	5,735
Share of Profit for IAH and shareholders	6,878	5,735

VI. Investment account holders under wakala (RO '000)

	2020	2019
Average Wakala deposits	149,175	134,702
Average Profit paid to investment accountholders %	3.89	2.99

11. Contract Specific risk

The Bank closely monitors the total risk exposures in each type of financing asset including the relative risk of carried. Following is the total Risk Weighted Assets classified by type of financing as of 31 December 2020

Type of Credit Exposure	RWAs	
	2020	2019
Sovereign	824	818
Banks	763	1,703
Murabaha receivables	42,967	46,992
Musharaka receivables	174,148	144,517
Ijarah assets – Ijarah Muntahia Bittamleek	127,668	95,953
Service Ijarah	497	341
Credit card receivables	563	553
Other Assets & off balance sheet items	11,750	12,520
Total	359,180	303,397

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

12. ZAKAH

Zakah is calculated in accordance with FAS 9 Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) using the net assets method. The Islamic Window will calculate the "Zakah base" based on audited financial statements and after approval from Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually, if any. Payment of Zakah on the Investment Accounts and other Accounts is the responsibility of Investments Account Holders.

13. EARNINGS PROHIBITED BY SHARIAH

The Islamic window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 20120, no income has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements. With regard to undistributed funds under charity account as of year ended 2020, Islamic window has taken approval from SSB for deferment of disbursement to next year.

14. COMPENSATION POLICY AND REMUNERATION OF SHARIA SUPERVISORY BOARD (SSB)

In line with the CBO guidelines on remuneration disclosure as part of pillar III, the relevant qualitative and quantitative disclosure are presented in the banks Basel II Pillar III.

Following remuneration of Sharia Board has been approved by the general assembly;

Chairman: RO 9,625 per annum (US\$ 25,000 per annum).

Member: RO 6,738 per annum (US\$ 17,500 per annum).

Sitting fee: RO 385 (US\$ 1,000) per meeting per member, maximum of 5 sitting per year.

Details of Sharia Supervisory Board and meetings attended during the year has been disclosed in corporate governance report.

15. GENERAL DISCLOSURES

Shari'a governance

Shari'a governance is the most important feature of the Islamic window. Shari'a governance is defined as a system whereby the Bank attempts and abides by the Shari'a principles in all its activities. The main objective of Shari'a governance framework is to ensure Shari'a compliance at all the times and at all levels and that is to enable the Islamic Window to be perceived as fully Shari'a compliant by all aspects. The key elements of Shari'a governance framework of the Islamic window are as follows:

- i. Shari'a Supervisory Board (SSB)
- ii. Head Shari'a Audit and Compliance/Internal Shari'a Reviewer (Head SAC)
- iii. Shari'a Audit Unit (SAU)
- iv. Shari'a Compliance Unit (SCU)
- v. Shari'a Risk Control Unit (SRCU)

Shari'a audit and compliance department

As per the Shari'a governance structure of the Window, Shari'a Audit and Compliance Unit (SACU) is a full-fledged department of the Bank. The Shari'a Audit and Compliance includes SAU, SCU and SRCU and is led by Head Shari'a Audit and Compliance / Internal Shari'a Reviewer. SACU main function is to objectively examine and evaluate the extent of compliance of the Bank in view of the pronouncements issued by the SSB or its Chairman and in adherence to the regulations issued by CBO

SACU has direct and regular communication with all levels of management, the SSB, and external auditors and it is provided with full and continuous support of management and the SSB to perform its duties. Shari'a Audit and Compliance works under supervision of the SSB to ensure independence and objectivity in performance of department's tasks.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

15. GENERAL DISCLOSURES *(Continued)*

Trainings

The Sharia Audit and Compliance Department (SACD) prepared a comprehensive training plan for year 2020 and got that approved by the SSB. In accordance with the training plan, Sharia Audit and Compliance prepared material on the Islamic window products and their Shari'a Principles by including essential features of Islamic banking, Sharia governance, Sharia structures of Islamic banking products and their process flows, list of legal documentation and Sharia principles underlying to each product. The training material was made in line with SSB directives, Islamic banking guidelines issued by CBO and AAOIFI Sharia Standards. The trainings were made as mandatory for the related staff of ahli islamic and ahlibank.

The trainings were conducted by Head SAC and Manager Sharia Audit as per SSB approved Training Plan for 2020 for staff of the Bank and through online application. Additionally, staff of Sharia Audit and Compliance was facilitated to attend AAOIFI and IIFM conference for industry updates on Sharia and Islamic banking practices. The SSB members were also facilitated by the Bank to attend AAOIFI conference to go through the industry developments on Sharia governance and compliance.

For 2021, the training plan has been approved by the SSB and annual training budget is in place for employees as part of the bank's overall training and development budget. The continued development, qualification and certification of all Islamic Banking personnel is an ongoing process.

Complaints

ahlibank has devised "Code of Ethics and Fair Practices - Customer Complaints Redressal Policy & Procedure" and same is implemented for the Islamic window with regard to professional ethics as well as procedure to resolve customers' queries and complaints. According to the policy, any Islamic Banking related enquiries and complaints are sent to related department of Islamic banking to address and advice and there is proper mechanism in place and a responsible person is identified who collects complains and send the same to the relevant staff.

The Islamic window has trained customer services representative in all the branches who provide appropriate guidance to customers in selection of relevant products suitable to the individual investors. Further, complete product booklet is available at the branches and on the Bank's website which can be referred in case of any further clarification is required. Customers call center (can contact number 24577177) or walk in any of the branches to register their complaints.

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2020 Sharia Audit and Compliance team has regularly been meeting with customers and clients and explaining them about Islamic banking products and their conditions.

Related Party

Disclosures related to related party and transactions during 2020 are disclosed in note 30 of Islamic window financial statements.

16. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2020.

Basel II Pillar III and Basel III Report *(continued)*

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17. BASEL III REGULATORY CAPITAL DISCLOSURES

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

BASEL III common disclosure template (RO '000)		2020	2019
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	25,000	25,000
2	Retained earnings	17,242	18,534
6	Common Equity Tier 1 capital before regulatory adjustments	42,242	43,534
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(741)	(642)
28	Total regulatory adjustments to Common equity Tier 1	(741)	(642)
29	Common Equity Tier 1 capital (CET1)	41,501	42,892
Additional Tier 1 capital: instruments			
36	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital before regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	41,501	42,892
Tier 2 capital: instruments and provisions			
50	Provisions (provision and fair value reserve)	998	1,517
51	Tier 2 capital before regulatory adjustments	998	1,517
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	998	1,517
59	Total capital (TC = T1 + T2)	42,499	44,409
60	Total risk weighted assets	376,920	322,946
60a	<i>Of which: Credit risk weighted assets</i>	359,180	303,397
60b	<i>Of which: Market risk weighted assets</i>	2,630	4,732
60c	<i>Of which: Operational risk weighted assets</i>	15,110	14,817
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.01%	13.28%
62	Tier 1 (as a percentage of risk weighted assets)	11.01%	13.28%
63	Total capital (as a percentage of risk weighted assets)	11.28%	13.75%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%	7.000%
65	of which: capital conservation buffer requirement	-	-
66	of which: bank specific countercyclical buffer requirement	-	-
67	of which: G-SIB buffer requirement	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	0.28%	2.86%
National minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000%	7.000%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000%	9.000%
71	National total capital minimum ratio (if different from Basel 3 minimum)	11.000%	11.000%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	192	149
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	885	1,395
77	Cap on inclusion of provisions in Tier 2 under standardized approach	4,712	3,791

Basel II Pillar III and Basel III Report *(continued)*

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17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

Step 1: Balance sheet under Regulatory scope of consolidation

Table 2a- Balance sheet under Regulatory Scope of Consolidation (RO '000)

(RO'000)	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	9,283	9,283
Certificates of deposit	-	-
Due from banks	3,488	3,488
Financings, net	345,289	345,289
Investments in securities	28,896	28,896
Placements with banks	-	-
Property and equipment	1,665	1,665
Deferred tax assets	-	-
Other assets	6,324	6,324
Total assets	394,945	394,945
Liabilities		
Due to banks	57,203	57,203
Customer deposits	285,464	285,464
Current and deferred tax liabilities	-	-
Other liabilities	5,681	5,681
Subordinated bonds	-	-
Total liabilities	348,348	348,348
Shareholders' Equity		
Paid-up share capital	25,000	25,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	17,242	17,242
Cumulative changes in fair value of investments	(198)	(198)
Subordinated debt reserve	-	-
Other Reserves	4,553	4,553
Total shareholders' equity	46,597	46,597
Total liability and shareholders' funds	394,945	394,945

Basel II Pillar III and Basel III Report *(continued)*

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17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation

Table 2b – Expansion of Balance Sheet Under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2020	31-Dec-20	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	9,283	9,283	
Due from banks	3,488	3,488	
Financings - Net, of which:	345,289	345,289	
- Financings to domestic customers		349,913	
- Provision against financings, of which:		(4,624)	
- Stage 3 Impairment allowance		(2,807)	
- Stage 1 / 2 impairment allowance, of which		(1,817)	
- Amount eligible for T2		885	a
- Amount ineligible for T2		932	
Investments, of which:	28,896	28,896	
- fair value through equity		28,896	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	1,665	1,665	
- Intangibles (CET1 adjustment)		(271)	e
- Other fixed Asset		1,394	
Other assets	6,324	6,324	
Total Assets	394,945	394,945	
Capital & Liabilities			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1		25,000	b
Reserves & Surplus; of which	21,597	21,597	
- Amount eligible for CET1		17,242	c
- Amount eligible for T2 (Investments Fair value gains)		113	d
- Investments fair value loss (CET1 adjustment)		(470)	e
- Investments fair value gain unutilized and impairment		159	
- Reserves (impairment reserve - not eligible for CET1)		4,553	
Total Capital	46,597	46,597	
Deposits	285,464	285,464	
Due to banks	57,203	57,203	
Other liabilities and provisions	5,681	5,681	
Other liabilities & provisions , of which		5,681	
'- Stage 1 / 2 impairment allowance, of which		26	
- amount eligible for T2		-	
- amount ineligible for T2		26	
TOTAL	394,945	394,945	

Basel II Pillar III and Basel III Report *(continued)*

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17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)			
Year ended 31 December 2020	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000	b
2	Retained earnings	17,242	c
3	Common Equity Tier 1 capital before regulatory adjustments	42,242	
4	Prudential valuation adjustments	(741)	e
5	Total regulatory adjustments to Common equity Tier 1	(741)	
6	Common Equity Tier 1 capital (CET1)	41,501	
Additional Tier 1 capital: instruments			
7	Additional Tier 1 capital (AT1)	-	
	Tier 1 capital (T1 = CET1 + AT1)	41,501	
Tier 2 capital: instruments and provisions			
8	Provisions	885	a
9	Fair value reserve of investments	113	d
	Tier 2 capital before regulatory adjustments	998	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	998	
	Total capital (TC = T1 + T2)	42,499	

Basel II Pillar III and Basel III Report *(continued)*

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17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

17.1 MAIN FEATURES OF REGULATORY CAPITAL

Year ended 31 December 2020		Common Equity Share Capital
1	ahli islamic	
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	25 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Capital allocated in 2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Basel II Pillar III and Basel III Report *(continued)*

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18. Basel III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three monthly data points.

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

Year ended 31 December 2020

	Total Unweighted Value (average)	Total Weighted Value (average)
(RO '000)		
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		40,720
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	159,529	9,350
3 Stable deposits	3,904	117
4 Less stable deposits	155,624	9,233
5 Unsecured wholesale funding, of which:	50,484	27,009
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	177	44
7 Non-operational deposits (all counterparties)	34,903	11,561
8 Unsecured debt	15,404	15,404
9 Secured wholesale funding		-
10 Additional requirements, of which		
11 Outflows related to derivative exposures and other collateral requirements	13,548	13,548
12 Outflows related to loss of funding on debt products		
13 Credit and liquidity facilities	3,883	388
14 Other contractual funding obligations		
15 Other contingent funding obligations	8	0
16 TOTAL CASH OUTFLOWS		50,295
Cash Inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	16,469	15,901
19 Other cash inflows	64,023	13,548
20 TOTAL CASH INFLOWS	80,492	29,449
		Total Adjusted Value
21 TOTAL HQLA		40,720
22 TOTAL NET CASH OUTFLOWS		20,846
23 LIQUIDITY COVERAGE RATIO (%)		195.33%

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

18. Basel III LIQUIDITY DISCLOSURE *(Continued)*

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

Year ended 31 December 2019

(RO '000)

	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		49,574
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	56,882	4,432
3 Stable deposits	24,299	1,164
4 Less stable deposits	32,584	3,258
5 Unsecured wholesale funding, of which:	77,411	38,211
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 Non-operational deposits (all counterparties)	64,764	25,564
8 Unsecured debt	12,647	12,647
9 Secured wholesale funding		-
10 Additional requirements, of which	-	-
11 Outflows related to derivative exposures and other collateral requirements	-	-
12 Outflows related to loss of funding on debt products	-	-
13 Credit and liquidity facilities	-	-
14 Other contractual funding obligations	1,938	194
15 Other contingent funding obligations	11,550	11,550
16 TOTAL CASH OUTFLOWS		54,337
Cash Inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	4,031	2,015
19 Other cash inflows	13,812	13,812
20 TOTAL CASH INFLOWS	17,843	15,828
		Total Adjusted Value
21 TOTAL HQLA		49,574
22 TOTAL NET CASH OUTFLOWS		38,550
23 LIQUIDITY COVERAGE RATIO (%)		128.60%

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

19. NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2020 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

Sr No.	Particulars	No Maturity	31 December 2020			Weighted Value
			<6 Months	6 Months to < 1 Year	>= 1 Year	
ASF ITEMS						
1	Capital	42,499	-	-	-	42,499
2	Regulatory Capital	42,499	-	-	-	42,499
3	Retail Deposits and Deposits from small Business Customers	113,101	9,545	46,152	19,944	172,960
4	Stable Deposit	21,359	266	327	-	20,855
5	Less Stable Deposit	91,742	9,279	45,825	19,944	152,106
6	Wholesale Funding	37,587	15,167	2,925	87,228	115,068
7	Operational	203	-	-	-	102
7	Other Wholesale Funding	37,384	15,167	2,925	87,228	114,966
8	All other liabilities and equities not included in above categories	21,304	-	-	-	-
9	Total ASF					330,527
RSF ITEMS						
10	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	1,345
11	Deposits held at other financial institutions for operational purposes	488	-	-	-	244
12	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	3,000	-	-	450
13	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	560	10,833	4,949	332,275	290,605
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
	Performing residential mortgages, of which:					
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	2,003	1,703
16	All other assets not included in the above categories	-	-	-	5,169	5,169
17	Off-balance sheet items	-	14,613	1,894	483	850
18	Total RSF					300,364
19	NET STABLE FUNDING RATIO					110.04%

Basel II Pillar III and Basel III Report *(continued)*

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19. NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template *(Continued)*

The financial statements and other related disclosures are also available on the ahlibank's website, to view it on the website refer the link <http://ahlibank.com/investor-relations/financial-reports/>.

The Basel II Pillar III disclosures are prepared in accordance with the requirements of Basel II Pillar III disclosures as set out in the CBO circulars BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated march 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated October 26, 2016.

For ahli islamic



Hamdan Ali Nasser Al Hinai

Chairman

Date: 27 January 2021



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