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BEST IN THE GULF

ANNUAL REPORT 2020

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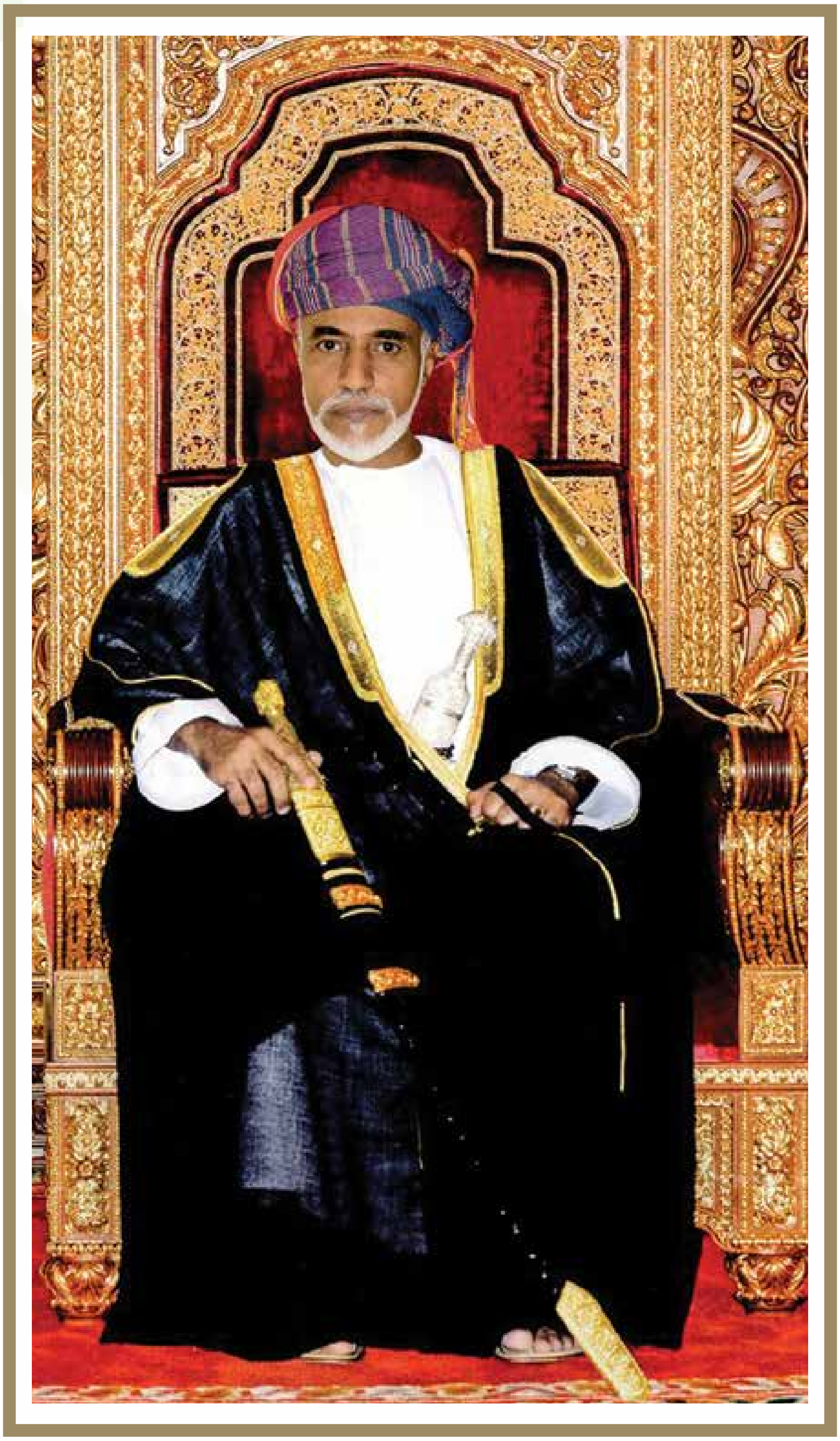

Late

Sultan Qaboos Bin Said

His Majesty

Sultan Haitham Bin Tarik

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

Dear Shareholders,

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

Financial overview in year 2020

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

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

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

Maisarah- Islamic Banking Services

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

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

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

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

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

Top Management Changes

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

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

Corporate Governance

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

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

Capital Adequacy

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

Distributed & Proposed Dividends

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

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

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

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

Corporate Social Responsibility (CSR) Initiatives

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

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

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

Awards and Accolades during 2020

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

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

The Year Ahead (2021)

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

Acknowledgment

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

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

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

Eng. Abdul Hafidh Salim Rajab Al-Ojaili

Chairman

THE BOARD OF DIRECTORS

Name of Director: Eng. Abdul Hafidh Salim Rajab Al-Aujaili

Basis of Membership: Chairman Non-executive
Non-Independent
Shareholder Director

Name of Director:
Mr. Ahmed Said
Mohammed Al Mahrezi

Basis of Membership:
Vice-Chairman Non-executive
Independent
Non-shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Mohammed Yousuf
Alawi Al Ibrahim

Basis of Membership:
Member Non-executive
Non-Independent
Representative Shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Tarik Abdul Hafidh
Salim Al Aujaili

Basis of Membership:
Member Non-executive
Non-Independent
Representative Shareholder Director

No. of other directorships held: 3

Name of Director:
Mr. Zakariya Mubarak
Ismail Al-Zidjali

Basis of Membership:
Member Non-executive
Non-Independent
Non-shareholder Director

No. of other directorships held: 0

Name of Director:
Mr. Hamdan Abdul Hafidh
Al Farsi

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Faisal Mohammed
Moosa Al Yousef

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 0

Name of Director:
Sheikh Khalid Said
Salim Al Wahaibi

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 0

Name of Director:
Sheikh Tariq Salim
Mustahil Al Mashani

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 1

THE
EXECUTIVE TEAM

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Ahmed Said Al Ibrahim
Chief Operating Officer

Faisal Hamad Al Wahaibi
Chief Strategic Business Relations Officer

Shankar Krishnan Sharma
Chief Financial Officer

Tariq Saleh Taha
Chief Retail Banking Officer

Mohammed Hilal Al Reyami
Head of Internal Audit

Hussain Ali Al Lawati
Acting Chief Corporate Banking Officer

Sohail Niazi
Chief Institutional Banking Officer

Duraid Al Jamali
Head of Legal

Leen Kumar
Chief Risk Officer

Ali Mohamed Al Alawi
Head of Compliance

Shaleen Chugh
Head of Corporate Banking

Osama Fathi Al Mansoor
Head of Transformation

Amina Nasser Al Falahi
Head of Government Banking

Bashir Said Al Subhi
Head of Treasury

Hani Habib Macki
Head of Asset & Wealth Management

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED
31st DECEMBER 2020

Report of factual findings to the shareholders of Bank Dhofar 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 Bank Dhofar 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 Bank Dhofar SAOG taken as a whole.

PricewaterhouseCoopers

Muscat, Sultanate of Oman
10 March 2021

C.R. No 1230865
PricewaterhouseCoopers LLC

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Report on Corporate Governance

Part One

1 - Corporate Governance Philosophy:

Corporate Governance is an essential element in attaining, enhancing and retaining confidence of the Bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, Board of directors and senior management of the Bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of Bank Dhofar SAOG (the Bank) bears the principal responsibility of establishing Corporate Governance as appropriate to the Bank within the broad framework laid down by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the top level, as trustees of the shareholders, bears the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board are discharged through four sub-committees, viz. the Board Executive Committee, the Board Audit Committee, the Board Risk Committee and the Board Nomination & Remuneration Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet all the requirements as laid down in the Code of Corporate Governance. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises of the Senior Members headed by the Chief Executive Officer.

Through this two-tiered interlinked governance process, an appropriate balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.

2 - Board of Directors

The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders. Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the Bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:

- Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
- Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
- Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the guidelines of the Capital Market Authority.
- Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.

- Adopting internal regulations and bylaws pertinent to steering and management of the affairs of the Bank.
- Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
- Ensuring that the Bank conducts its operations in an ethical and transparent manner.
- Assessing and approving the proper delegation of authorities to executive management.
- Appointing and evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of office of the current Board expires in March 2022.

Composition and selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders provided that a shareholder candidate holds not less than 50,000 shares of the Bank's share capital. All members of the Board of Directors are non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the definition of independent director, as defined in the Code of Corporate Governance issued in July 2015, which states that a director shall be deemed non-independent in the following cases:

(a) Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(b) Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(c) Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies.

(d) Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies.

(e) Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies.

(f) Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership.

(g) Being, during the two years preceding candidacy or nomination to the board, an employee of any parties contractually engaged with the company (including external auditors, major suppliers or civil society organizations ("CSO") where the latter received a support in excess of 25% of the annual budget of such CSOs).

(h) Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies.

(i) Holding about 20% of the shares of any of the above mentioned parties during the two years preceding candidacy or nomination to the board.

The nomination of Board members is according to the rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each shareholder shall have a number of votes equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, four are non- Independent and five are Independent within the scope of the definition of independence laid down by the CMA Code of Corporate Governance.

Board Committees

The Board has the following four Board Committees, whose objectives, powers and procedures are governed by the charters of the respective Committees, which are approved by the Board:

1. Board Executive Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination & Remuneration Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Sharia Supervisory Board

Sharia Supervisory Board was formed in the year 2012 for the Islamic Banking operations of the Bank's window, Maisarah Islamic Banking Services (Maisarah).

3- Profiles of Members of the Board of Directors

H.E. Eng. Abdul Hafidh Salim Rajab Al Ojaili - Chairman

H.E. Eng. Abdul Hafidh Salim Rajab Al Ojaili is currently the Chairman of Bank Dhofar. He is the Chairman of the Board Executive Committee. He is a promoter shareholder of well-established institutions in Oman such as Bank Dhofar, Dhofar International Development & Investment Holding Co. SAOG, Dhofar Power Company SAOC and Oman Aviation Services Co. (SAOG). He holds Master Degree in Mechanical Engineering.

Mr. Ahmed Said Al Mahrezi - Deputy Chairman

Mr. Ahmed Said Al Mahrezi is a member of the Board of Directors. He is also the Vice Chairman, the Chairman of the Board Nomination & Remuneration Committee, a member of the Board Risk Committee and a member of the Board Audit Committee. He is a Director of Hotel Management Co. International SAOG. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 27 years. Mr. Ahmed holds a Master of International Commercial Law and a Bachelor of Law.

Mr. Mohammed Yousuf Alawi Al Ibrahim - Director

Mr. Mohammed bin Yousuf Al Ibrahim is a member of the Board of Directors. He is also a member of the Board Executive Committee, a member of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience in directorship of private and public companies. His diverse portfolio includes being Shareholder, Executive & Managing Director of various private companies & Establishments. He is a Director of Dhofar University. Mr. Mohammed holds a Bachelor of Business Administration.

Mr. Tariq Abdul Hafidh Al Aujaili - Director

Mr. Tariq Abdul Hafidh Al Aujaili is a member of the Board of Directors. He is also the Chairman of the Board Risk Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience of public companies' directorship. Other positions held by him include Vice Chairman of Dhofar International. Development & Investment Holding Co. SAOG, Vice Chairman of Dhofar Insurance Co SAOG and Vice Chairman of Oman Investment & Finance Co SAOG. Mr. Tariq holds a Bachelor of Accountancy & Finance.

Mr. Zakariya Mubarak Al Zadjali - Director

Mr. Zakariya Mubarak Al Zadjali is a member of the Board of Directors. He is a member of the Board Audit Committee. He has over 27 years' experience in financial management, sourcing logistics, supply chain management and vendor development. Presently he holds the position of Budget Controller at the Ministry of Defence. Mr. Zakariya holds a Bachelor of Science in Military Sciences.

Mr. Hamdan Abdul Al Hafidh Al Farsi - Director

Mr. Hamdan Abdul Al Hafidh Farsi is a member of the Board of Directors. He is also the Chairman of the Board Audit Committee. He currently holds the position of Director of Risk Management at the Public Authority for Social Insurance (PASI). He is a director of National Gas Co SAOG. He has a wealth of experience extending for 25 years in Finance, Internal Audit and Risk Management. Mr. Hamdan Al Farsi holds a Bachelor and a Master degree in Accountancy.

Mr. Faisal Mohamed Moosa Al Yousef - Director

Mr. Faisal Mohamed Moosa Al Yousef is a member of the Board of Directors, a member of the Board Executive Committee and a member of the Board Nomination & Remuneration Committee (He resigned from this Committee on 24 December 2020). He is the Chairman of Muscat Finance Co SAOG and a member of the Board of Directors of Dhofar International Development and Investment Holding Co SAOG. He is the Chief Executive Officer of Al Yousef Group. Mr. Faisal holds a Bachelor of Economics and is a fellow of the Association of Chartered Certified Accountants, U.K.

Sheikh Khalid Said Salim Al Wahaibi - Director

Sheikh Khalid Said Salim Al Wahaibi is a member of the Board of Directors, a member of the Board Executive Committee and a member of the Board Audit Committee. He is the Chairman of Al Omaniya Financial Services Co SAOG and Vice Chairman of National Gas Co SAOG. He has a wealth of experience extending over 24 years as a Director and Managing Director of Assarain Group of Companies. Sheikh Khalid holds a Bachelor of Business Administration.

Sheikh Tariq Salim Mustahil Al Mashani - Director

Sheikh Tariq Salim Mustahil Al Mashani is a member of the Board of Directors and a member of the Board Executive Committee. He is a Director of Al Omaniya Financial Services Co SAOG and Director of Dhofar University. He has extensive experience in directorship of private companies. His diverse portfolio includes being Shareholder, Chairman and Director of various private companies & establishments. Sheikh Tariq holds a Bachelor of Business Management.

Part Two

1 - Members of the Board of Directors

The Board of Directors of Bank Dhofar (SAOG) consists of the following:

S. NO.	Name of Director	Basis of membership			No. of other directorships held in SAOG Companies
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	Chairman Non-executive	Non-independent	Shareholder Director	-
2	Mr. Ahmed Said Mohammed Al Mahrezi	Deputy Chairman Non-executive	Non-independent	Representative of Shareholder Director	1
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	-
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non-independent	Non-shareholder Director	3
5	Mr. Zakariya Mubarak Al Zadjali	Member Non-executive	Independent	Non-shareholder Director	-
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	Member Non-executive	Independent	Representative of Shareholder Director	1
7	Mr. Faisal Mohammed Moosa Al Yousef	Member Non-executive	Non-independent	Representative of Shareholder Director	2
8	Sheikh Khalid Said Salim Al Wahaibi	Member Non-executive	Non-independent	Representative of Shareholder Director	2
9	Sheikh Tariq Salim Mustahil Al Mashani	Member Non-executive	Independent	Representative of Shareholder Director	1

The Board of Directors held 11 meetings during 2020, as follows:

28 January 2020	17 March 2020	6 May 2020	20 May 2020
11 June 2020	28 July 2020	7 September 2020	28 October 2020
16 November 2020	24 December 2020	30 December 2020	

Details of meetings and remuneration of the Board of Directors of Bank Dhofar (SAOG) are as follows:

S. NO.	Name of Director	No. of meetings attended	Directors' benefits (Amount in OMR)	
			Sitting Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Ojaili	11	10,000	35,500
2	Mr. Ahmed Said Mohammed Al Mahrezi	10	10,000	34,000
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	9	10,000	32,500
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	11	10,000	34,000
5	Mr. Zakariya Mubarak Al Zadjali	11	10,000	32,500
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	11	10,000	34,000
7	Mr. Faisal Mohammed Moosa Al Yousef	11	10,000	32,500
8	Sheikh Khalid Said Salim Al Wahaibi	10	10,000	32,500
9	Sheikh Tariq Salim Mustahil Al Mashani	11	8,000	32,500
	TOTAL		**88,000**	**300,000**

2- Sharia Supervisory Board (SSB)

The SSB consists of five members. The objectives of SSB include:

- To provide the Sharia rulings in all activities of the Islamic Banking Window (IBW)
- To supervise the compliance of the IBW with Islamic Sharia rules
- To enhance the IBW contribution in spreading the awareness and contribute in development of the Islamic banking.

The Sharia Supervisory Board has held 4 meetings in 2020.

S. NO.	Name of SSB Members	Designation	No. of meetings attended	Honorarium (Amount in OMR)	
				Sitting Fees Paid	Remuneration Proposed
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman	4	2,400	9,000
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman	4	2,200	7,500
3	Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	4	2,000	7,000
4	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	4	2,000	7,000
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	4	2,000	7,000

3 - Board Executive Committee (BEC)

The BEC comprises five members of the Board of Directors and meets as and when there is a business need. The Board Executive committee (BEC) is entrusted to guide the Bank management on three key strategic areas:

1. Approval of credit proposals - The BEC is responsible for approving certain credit proposals and overseeing the Bank's credit policy framework. The responsibilities of the BEC include reviewing and approving specific transactions up to the Bank's permitted risk limits, in particular those which exceed the authority of the senior management.
2. Strategy, Merger, Information & Transformation - The committee oversees matters pertaining to Strategy, Information Technology (IT), Transformation and Mergers. Review major projects handled by Enterprise Project Management Office. Review IT Strategy and major decisions relating to IT. The committee is to review and set the direction on the Bank's potential merger/s on behalf of the Board of Directors of the Bank in compliance with CBO, CMA and MOCI and other regulators guidelines and regulations. To conduct and finalize negotiations in relation to the potential merger on behalf of the Board of Directors of the Bank and also to oversee the steps of the merger to its final potential conclusion.
3. Capital, Funding & Bank Proprietary Book Investments - The Committee is tasked with reviewing and setting the direction on the capital and funding requirements of the Bank to ensure compliance with the CBO and Basel guidelines. It is also responsible for reviewing and setting the direction of the non-capital long-term funding requirements of the Bank, which are typically issued and listed on international or local markets, in addition to overseeing capital requirements. The Committee also oversees the management practices on investment matters. It monitors the Bank's investments and ensures that the Bank complies with its policies and regulatory requirements

The Members of the Board Executive (BEC) Committee are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Eng. Abdul Hafidh Salim Rajab Al Ojaili	Chairman of the Board Executive Committee	4
2	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	4
3	Mr. Faisal Mohammed Moosa Al Yousef	Member	4
4	Sheikh Khalid Said Salim Al Wahaibi	Member	3
5	Sheikh Tariq Salim Mustahil Al Mashani	Member	2

The BEC held 4 meetings in 2020

4 - Board Audit Committee (BAC)

The Board Audit Committee (BAC) was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong internal controls over financial reporting and sound risk management and governance practices.
- To review the adequacy and effectiveness of internal controls in the Bank and to recommend appropriate steps to improve them where required.
- To review the effectiveness of the system for monitoring the Bank's compliance with legal and regulatory provisions, Bank's Articles of Association, Charters, By-laws and internal policies and procedures established by the Board of Directors.
- To review the effectiveness of the internal audit function and approve the risk based internal audit plan as well as the availability of adequate resources and informational access.
- To recommend to the Board of Directors the appointment of the external auditors, their termination and remuneration and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the foregoing and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Board Audit Committee (BAC) are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Hamdan Abdul Hafidh Al Farsi	Chairman of the Audit Committee	13
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	13
3	Mr. Zakariya Mubarak Al Zadjali	Member	13
4	Sheikh Khalid Said Salim Al Wahaibi	Member	12

The (BAC) held 13 meetings in 2020.

5- Board Risk Committee (BRC):

The Board Risk Committee (BRC) was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios and measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- Apprise the Board of Directors on significant issues affecting Risk Management in a timely manner.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Board Risk Committee (BRC): are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Chairman of the Board Risk Management Committee	8
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	9
3	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	9

The (BRC) held 9 meetings in 2020.

6- Board Nomination and Remuneration Committee (BNRC):

The Board Nomination and Remuneration Committee (BNRC) is formed by the Board to ensure that the overall human resources developments at Board of Directors and executive management levels are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Nominate qualified persons to assume senior executive management positions for the Board of Directors approval.
- Provide succession and development plans for the executive management.
- Develop succession policy/plan for the Board of Directors, at least for the Chairman.
- Prepare detailed job descriptions for the Chairman and Directors.
- Nominate qualified persons to act as interim Directors on the Board in the event of any seat becomes vacant.
- Prepare and review compensation policy of executive management.
- Endorse compensation package (salary, increment, promotion, & bonus) of executive management for Board of Directors approval.

The members of the Board Nomination and Remuneration (BNRC) Committee are:

S. NO.	Name of Director	Designation	No. of meetings attended
1	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board NR Committee	4
2	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	4
3	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	4
4	Mr. Faisal Mohammed Moosa Al Yousef*	Member	3

* Mr. Faisal Mohammed Moosa Al Yousef resigned from the Committee on 24 December 2020.

The (BNRC) held 4 meetings in 2020.

7- Directors' Remuneration

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2020 are as follows:

	Proposed Remuneration OMR	Sitting Fees Paid OMR	Total OMR
Chairman of the Board	35,500	10,000	45,500
Board Members	264,500	78,000	342,500
Total	**300,000**	**88,000**	**388,000**

8- Compensation Policy

In line with the CBO guidelines on remuneration disclosures, the Bank has described the relevant qualitative and quantitative disclosures in this Corporate Governance Report.

8 (a) Qualitative Disclosures:

The Compensation Policy supports the Bank's long-term business objectives. The current compensation practices are in line with the guiding principles of the CBO guidelines spanning across Risk Management and Risk Tolerance, supporting the business strategy, objectives, values and long term interests of the firm, avoiding conflicts of interest, governance, managing the control functions' pay, remuneration and capital management and profit-based measurement and risk adjustment. The Policy is reviewed at the periodic intervals. The Board of Directors of the Bank has a Board Nomination & Remuneration Committee (BNRC) which consists of a minimum of three Board Members, , with one Member representing the Risk Committee of the Board.The Committee's mandate is to frame compensation policy, systems and processes for implementation and or review.

The Total Rewards Strategy of the bank supports the growth of the bank in line with the long-term vision and objectives that take into account the longer term health of the institution and financial stability, while at the same time accomplishing the following goals related to our key talent:

- Attract and retain employees
- Motivate and reward performance
- Align rewards with the organizational culture
- Drive synergy between organizational and employee performance
- Encourage desired behaviours and recognize the required results
- Focus employees on achieving the organizational goals and objectives
- Ensure Pay mix is appropriate to generate desired productivity, behaviour and in line with CBO guidelines
- Transparent and lucid compensation systems to ensure employee adoption

8 (b) Material Risk Takers

Material Risk-takers are identified to include AGM & above and all staff with bonuses of more than OMR 35,000, within the agreed framework and in line with CBO guidelines. The Bonuses of the MRT's are deferred over the 4 years period wherein the first year, 55% of the bonus' paid as cash and the balance is paid equally over the subsequent 3 years, subject to certain conditions relating to malus and clawback. The Compensation Policy also specifies the treatment of payments of unvested bonus payment considering various scenarios.

8 (c) Risk Adjustment

Through a series of measures, the bank ensures that effective risk management processes are embedded into compensation systems addressing both ex-ante and ex-post adjustments.

The risk adjusted bonus funding mechanism shall comprise of Compensation Governance, Determination of Bonus Methodology, Employees Group, and Deferral Schedule. However, this mechanism will not be applied to accrue for the bonus pool for the control functions staff.

The existing methodology to determine the risk adjusted bonus funding mechanism is summarized below:

a. The bank assesses its liquidity and capital requirements prior to approving the bonus pool

b. The net profit is adjusted to factor in the various risk exposures faced by the bank

c. The Bank bonus distribution to its staff is based on the performance against pre-determined measures.

d. This consists of both short term and long-term incentives as appropriate to the employee's role.

8 (d) Control Functions

The Bonus for all staff employed in the Control Functions will be derived through a specific plan that has been designed to be in adherence with the CBO guidelines. This plan is based on a separate mechanism which has been designed to incorporate the current Market Price for the jobs as opposed to the bank's performance.

8 (e) Malus and Clawback

The policy of Malus & Claw Back is in place, in order to ensure that the bonus is paid based on accurate financial and operating data. If the Bank determines to seek recovery for the bonus payment due to causes that are mentioned in the Policy, the Bank shall have the right to demand from the staff to reimburse such amount to the Bank.

8 (f) Quantitative Disclosures

The Board Nomination and Remuneration Committee (BNRC) has held 4 meetings in 2020. As per the Policy, the bonus pool is a variable factor and depends on overall performance of the Bank; the Pool is funded by taking a percentage of the Net Profit.

The 5 key management members and their salaries and bonuses for 2020 was OMR 1,601,475. The amount disclosed is the amount paid for the reporting period. Certain components of the key management bonuses are paid on the deferral basis as per the guidelines issued by the Central Bank of Oman.

The period of services contract for expatriate executives is two years while the notice period for the top executives is three months.

9- Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years. No penalties were imposed in 2018 & 2019. The Examination Report of Central Bank of Oman for 2020 has not been issued at the date of preparing this report.

Also the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

10- Communication with Shareholders and Investors

All financial and non-financial information are disseminated in a timely manner. The management provides regular updates to the market on the Bank's performance and new developments, besides detailed disclosures in accordance with regulatory requirements and international standards. The Management Discussion and Analysis Report forms part of the Annual Report.

As part of enhancing Bank Dhofar's investors' relations image, the Bank has taken the following steps:

1. The Bank has created a separate section under its website "Investors' Relations" where all the relevant information, links, and documents of investors' interest and relevance are gathered under this section.
2. The Bank has created an email ID: investorsrelations@bankdhofar.com, which is available on Bank Dhofar's website under "Investors' Relations" section for further communication ensuring attending investors' and other external stakeholders' queries on timely basis. The bank receives various queries from external financial institutions and investors from time to time.

The Bank publishes its unaudited quarterly and audited annual financial statements and also hosts these and other relevant information on its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly and annual results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders of the Bank. Bank's all official news releases are displayed on the Bank's website.

11- Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2020 compared with Muscat Securities Market Financial Sector Index is as follows:

2020	Bank Dhofar Share Price (OMR)			MSM financial sector Index
Month	High	Low	Closing	Closing
January	0.123	0.112	0.113	6,517.51
February	0.120	0.112	0.114	6,518.60
March	0.116	0.090	0.090	5,442.54
April	0.105	0.090	0.104	5,569.26
May	0.104	0.104	0.104	5,577.46
June	0.108	0.100	0.105	5,586.27
July	0.101	0.096	0.101	5,706.39
August	0.115	0.100	0.111	6,125.98
September	0.112	0.105	0.105	5,833.24
October	0.111	0.100	0.101	5,621.77
November	0.106	0.100	0.102	5,709.48
December	0.102	0.090	0.097	5,651.08

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2020:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	24.38%
2	Eng. Abdul Hafidh Salim Rajab Al Ojaili & his companies	23.45%
3	Civil Service Pension Fund	10.56%
4	H.E. Yousuf bin Alawi bin Abdullah & his Companies	9.80%
5	Public Authority of Social Insurance	8.73%
6	Qais Omani Establishment LLC	6.98%
7	Ministry of Defense Pension Fund	5.25 %
8	Others	10.85%
	Total	**100.00%**

12- Profile of the Statutory Auditors

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

PwC is strongly committed to Oman where it is recognised as one of the leading providers of quality business advisory services. PwC have had a local practice in Oman since 1971 and now have 8 partners, 1 of whom is Omani and 7 directors, 1 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 separate legal entity. Please see www.pwc.com/structure for further details.

The Professional fees paid or payable to auditors for the financial year 2020 is OMR 106,080. This amount represents OMR 98,580 paid or payable for audit services and OMR 7,500 paid for permitted non-audit services. The total audit services fees of OMR 106,080 include an amount of OMR 21,200 paid or payable, as Audit fees and Sharia fees relating to the Bank's Islamic Banking Window, Maisarah Islamic Banking Services.

13- Other Matters

The last Annual General Meeting was held on 2 June 2020. The meeting was conducted as per statutory requirements and attended by the Chairman, Eng. Abdul Hafidh Salim Rajab Al Ojaili and the following members of the Board of Directors: Mr. Ahmed Said Mohammed Al Mahrezi, Mr. Tariq Abdul Hafidh Salim Al Aujaili Mr. Zakariya Mubarak Al Zadjali and Mr. Hamdan Abdul Hafidh Al Farsi, Mr. Faisal Mohammed Moosa Al Yousef & Sheikh Khalid bin Said Al Wahaibi.

14- Subordinated Loan (Outstanding and movements during 2020)

1. In February 2020, the Bank has repaid the unsecured subordinated loan amounting to USD 75 million (RO 28.875 million) upon maturity

2. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carry a fixed rate of interest payable half yearly with principal being repaid on maturity.

3. Details regarding subordinated loan reserve are set out in note 18(b) in the Notes of the financial statements.

15- Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000,000. This Tier 1 USD Securities is listed in Irish Stock Exchange (now traded as Euronext Dublin).

The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority. However, due to the prevailing Covid-19 global pandemic and market conditions at that time, the Bank was not able to exercise the option at the First Call Date

The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five-year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest will be payable semi-annually in arrears and treated as deduction from equity.

On 27 December 2018, the Bank issued Perpetual Tier 1 OMR Capital Securities (the "Tier 1 OMR Securities"), amounting to OMR 40,000,000, denominated in OMR. This Tier 1 OMR Securities is listed in Muscat Securities Market.

The Tier 1 OMR Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 OMR Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

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

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

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

16- Acknowledgment

The Board of Directors confirms the following:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- It has reviewed the efficiency and adequacy of internal control systems of the Bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

Eng. Abdul Hafidh Salim Rajab Al Ojaili
Chairman

PROFILE OF THE **TOP 5 EXECUTIVES**

Abdul Hakeem Omar Al Ojaili

Chief Executive Officer

With 31 years of progressive experience in all aspects of banking operations and a strong track record of successful and inspirational leadership, Abdul Hakeem Al Ojaili was appointed as the Chief Executive Officer of BankDhofar in April 2017 to lead the bank on a comprehensive restructure and transformation journey towards achieving an ambitious strategic vision to become the Best Bank in the Gulf in customer experience.

During his tenure, BankDhofar witnessed constant growth of business and reached remarkable milestones across all units and functions, including Corporate Banking, Retail Banking, Operations Management, Information Technology, Core Banking Systems, Corporate Support Services and Human Resources Development.

Abdul Hakeem heads a number of committees within the bank, including Executive Management Committee, Assets & Liability Committee, Management Credit Committee, Management Risk Committee, Information Technology Committee and Investment Management Committee.

Abdul Hakeem holds a Master's Degree in Banking Management from the University of Exeter in the UK and a Bachelor's Degree in Business Administration, Marketing & Management from New England College in the USA. He is also an alumnus of both Harvard and London Business Schools' Executive Education Programs, and he was cross-posted to work on key assignments with a number of international banks.

Ahmed Said Al Ibrahim

General Manager & Chief Operating Officer

Ahmed Al Ibrahim brings in a wealth of experience accumulated throughout over 26 years in the banking and finance industry. Prior to his appointment as BankDhofar's General Manager & Chief Operating Officer, he has been mandated with various key assignments across different functions and business units including Management, Sales and Marketing, Government Banking, Quality Assurance, Investment Banking and Priority Banking.

Ahmed is the head of the Bank's Asset & Liability Committee, Executive Management Committee, Investment Management Committee and he is the Chairman of the Purchase Committee.

Ahmed holds an MBA from the University of Hull in the UK and a Bachelor's Degree in Mass Communication from Sultan Qaboos University. He also attended the Executive Leadership Programs at the London Business School and several other programs in Management, Business and Banking.

Faisal Hamad Al Wahaibi

General Manager & Chief Strategic Business Relations Officer

Faisal Al Wahaibi is the General Manager & Chief Strategic Business Relations Officer at BankDhofar, and he brings in a wealth of more than 27 years of accumulated experience in Strategic Planning, Relationship Management, Customer Experience, Budgeting, Planning, Funding, Regulatory Affairs, Outsourcing and Restructuring, Cost Control and Reduction, Sales, Marketing, Distribution, Staff Development, telecommunications, Operations, Retail and Accounts.

Faisal is a member of the Bank's Asset & Liability Committee, Executive Committee, Management Credit Committee, Management Risk Committee, Purchase Committee and the Projects Steering Group Committee.

Faisal holds a Bachelor's Degree in Marketing from the University of Missouri, USA. He is an alumnus of Harvard Business School, having completed the Advanced Management Program 192. He is on the list of Leading Practitioners in Financial Services Industry by the Asian Banker Excellence in Retail Financial Services Council and is certified in Risk Management by IIR Middle East.

Kamal Hassan Al Maraza

Chief Maisarah Islamic Banking Officer

Kamal Al Marazza is an experienced banker with over 20 years of experience in Corporate Banking, Relationship Management, Sales and Marketing, Risk Management and Business Strategy. Prior to his appointment as Chief Maisarah Islamic Banking Officer, he served in a couple of banks and financial institutions across Oman, including HSBC, Bank Sohar and the conventional operations at BankDhofar.

In addition to his post, Kamal is a member of a number of committees within the bank including Assets & Liability Committee, Management HR Committee, Management Credit Committee and Management Risk Committee.

Kamal holds a Bachelor's degree in Marketing from Saint Louis University in USA, and he attended Harvard Advanced Management Program, in addition to several specialized banking programs locally and internationally.

Leen Kumar

General Manager & Chief Risk Officer

Leen Kumar is an accomplished banking professional with over 26 years of professional experience in operations, strategic management, risk management, corporate and retail banking.

Prior to his current post, Leen held leadership and management roles in a number of key banks locally and internationally, including Bank Muscat and Ahli United Bank in Kuwait. Leen is a member of executive committees within BankDhofar and chairs the bank's Risk Management Committee.

Leen holds a Master's Degree in Business Management from Asian Institute of Management, Manila, and a Master's degree in Commerce from India. He is a certified Financial Risk Manager (FRM), Certified Management Accountant (CMA) and a Certified Financial Manager (CFM).

MANAGEMENT DISCUSSION & ANALYSIS REPORT

FOR THE YEAR ENDED
31st DECEMBER 2020

Economic Scenario and Future Outlook

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

Institutional Banking Department

Institutional Banking Department (IBD) offers a range of financial solutions to its clients through treasury and financial institution activities and business lines.

With the most sophisticated digitally enabled platform, Treasury predominantly manages the funding requirements of the Bank while monitoring regulatory and internal liquidity ratio, interest rate risk, exchange rate risk, market risk, and liquidity risk on daily basis.

A highly skilled sales team is part of the treasury department, which structures and delivers tailored solutions on foreign exchange, interest rate, and commodity hedging instruments and investment services in government securities issued by the CBO, to cater to the evolving financial needs of the Bank's customers that includes Government and Semi-Government Entities, Corporates, SMEs, and high net worth individuals.

Being an active market participant, Treasury is actively involved in lending and borrowing operations with both local and international banks.

Financial Institutions Department establishes and maintains all international Correspondent Banking relationships of the Bank. The department ensures that the Bank's corporate and retail clients have access to the world through the wide network of leading correspondent banks and Capital Markets. Capitalizing on the excellent relationship with leading regional and global banks, the department actively assists the Bank's corporate customers with their global trade finance requirements.

During the year, regardless of the global pandemic, the department was responsible for arranging loans and deposits from various regional and international banks/investors to meet the requirements of the customers.

The substantial credit lines available from financial institutions around the globe has helped the Bank increase its ability to support the increasing business needs of the customers. The department will continue to look to identify treasury relationships and trade finance self-liquidating transactions within the Gulf Cooperation Council countries (GCC) and regional markets to build a sustainable long-term relationship that would benefit both the Bank and its customers.

Corporate Banking

In line with Bank's commitment to be the Best Bank in the Gulf, the Corporate Banking department continues its transformation journey with core values of Transparency, Innovation, and service excellence.

Through a dedicated team of experienced professionals, the Corporate Banking department always undertakes new initiatives with a customer-centric approach and strives to provide Best in Class Services.

Corporate banking department's focus on leveraging a leaner approach by emerging digital technologies through channels, enhancing customer services experiences by providing them with exceptional user experiences.

Corporate Banking Department plays a vital role by focusing on sectoral growth. The department selectively channel limited resources to high priority, growth sectors of emerging Corporates and well-established businesses in line with Government initiatives. The current pandemic (COVID19) situation created limitations on new Business opportunities during the year 2020. We realigned the Corporate Banking department to changing business conditions and focused on enhancing service to customers and tap new business opportunities from the existing customers.

Corporate Banking Department is financing major Governmental projects with significant national importance. In this direction, to provide specialized services to borrowers in the above category Project finance and syndications department, which is part of the Corporate banking department, has been further strengthened. The dedicated team of professionals participating in financing various infrastructure and industrial projects like, Solar power projects, Power and water projects, Oil and Gas industry, manufacturing aluminum, and steel and Petrochemical projects, etc. The focus was to tap the business opportunities in this sector and participate in nation-building and economic expansion.

All the corporate customers are serviced through dedicated and experienced relationship teams.

In continuation to Bank's policy of encouraging Small and Medium Enterprises (SME) sector, formulated a few strategic initiatives for SME customers. The Bank continues to expand its services in this important segment through the deployment of committed business relationship managers to provide appropriate financing solutions to SME clients.

Corporate Banking department also extending all the Trade Finance related Services through a team of efficient and experienced professionals capable of handling, processing all trade finance transactions/needs of customers with the least turnaround time. Over the past years, Trade Finance products and services have been evolving to meet the requirements of customers, regulators (both local and international). As the second largest bank in the Sultanate of Oman, BankDhofar provides standardized as well as customized service to all segments of customers depending on the need while ensuring that the customers', the bank's, and the country's interest are protected. Despite the challenges faced during the year due to COVID19 movement restrictions, the Bank's Trade Finance department was open throughout for its customers and executed transactions without any delays ensuring that there was no financial/economic impact for its customers and the country.

From a technology perspective, the Bank and specifically the Trade Finance department implemented an upgraded Core Banking System which gives the Bank the flexibility to further enhance its services through process automation. BankDhofar has an extensive international network of correspondent banking arrangements making it possible to execute transactions and provide end to end monitoring for its customers. With a global reach and well-trained team offers quality service with quick turnaround time by leveraging.

- Advanced Technology and Automation, to process letters of Credit (LC) and Letters of Guarantee quickly and accurately.
- Experienced professionals who are knowledgeable in International Trade Finance.
- An in-depth understanding of trade and banking practices, correspondent institutions to ensure smooth handling of trade service transactions and offer best in class solutions for other trade finance needs like letters of guarantees, bills collection services, confirmation of LCs/re-issuance of guarantees etc.
- Transmission Flexibility: Clients can forward Letters of Credit and Letters of Guarantee Applications, through BankDhofar SWIFT, Courier, mail, or Internet banking system.

In persistent drive to expand the presence of the Bank in the Sultanate, the first full-fledged Corporate branch was inaugurated, serving Corporates, Government Entities, Small and Medium Enterprises customers through experienced teams.

Corporate Banking department was the first in Oman to launch a self-service Multifunction Kiosk conveniently located at Corporate Centre, which provides 24/7 services including bulk cash deposits, bulk cheque deposit, instant issuance of bank statements, as well as a range of other services. The goal of the Multi-Function Kiosk is to enable customers to carry-out essential requests and transactions at their convenience at any time of the day and any day of the week.

Thus, Corporate Banking department is driving its Business strategy in line with the overall Bank's vision to achieve the objectives in the coming year.

Strategic Business Relationships Division

With the aim of capitalizing on the relationships with strategic partners, BankDhofar has restructured its organization and formed Strategic Business Relationships Division, which will be dedicated to address the requirements of a broader range of customers.

Since its inception BankDhofar has maintained a solid position in the market, through taking part in various national projects and contributing to the enhancement of Oman's economy. Strategic Business Relationships Division will capitalize on such relations, to increase BankDhofar's brand value, expand the customer base, access additional resources, and stimulate revenue growth.

Strategic Business Relationships Division comprise of the following Departments:

- Government Banking
- Corporate Advisory
- Asset & wealth management
- Brokerage

Government Banking Department:

Government Banking Department offers all banking products and services to Government/ Quasi-Government clients through dedicated resources as a separate channel. This ensures providing quick customer service and meeting unique requirements of Government customers & Ministries with varied financial service needs.

Thus, the bank offers a suite of products to meet the various business needs of all the Bank's customers.

Corporate Advisory Department:

Corporate Advisory department offers specialized services of strategic advisory to various industry sectors in the country covering sectors such as Oil & Gas, Telecom, Financial Institutions, Steel, Power & Utilities, and SMEs by providing tailor-made solutions & products. The products on offer includes corporate and asset level organic and inorganic growth/exit strategies, mergers, acquisitions, management buy-outs/buy-ins, capital raising, capital restructuring, private placements, start-ups, and joint ventures.

Brokerage

The Brokerage unit provides clients with brokerage related services for dealing in investment securities (both equities & bonds) listed on the Muscat Securities Market (MSM) along with other services like EZ Trade (a service which allows clients to trade MSM securities online) as well as online and mobile banking IPO subscriptions.

Asset & Wealth Management Department

The department will be providing asset and management services to address the needs of affluent customers and institutions. The department will be equipped with experienced team who will be providing the customers with investment solutions and advising them on best practices to achieve their investment goals.

Retail Banking Division

The Retail Banking Division (RBD) at BankDhofar continued providing value-added products and services to the customers.

During the year 2020 as part of BankDhofar's "Together 2020" journey, the Bank renovated and relocated a few branches to ensure that the design is standardized across the network, which aimed to enrich customer experience at the branches. The Bank also continued serving customers for extended working hours in key branches. BankDhofar has a wide distribution network across the Sultanate of Oman to make banking services available to all customer segments across the country. The network includes 56 conventional branches and a corporate center (total 57 for conventional banking). Bank's branch network is made up of total of 67 branches including 57 conventional and 10 Maisarah Islamic Banking branches.

In 2020, BankDhofar provided a special offering to the employees of targeted companies within Oman. The Bank continued providing the best customer service in Oman and ensuring quick turnaround time for loan transactions. The campaign to own a new home within 5 days at competitive and affordable pricing, continued in the housing loan category.

In January 2020, the new saving scheme was launched. BankDhofar offered a guaranteed monthly OMR 1,000 per branch prize draw and monthly prize of OMR 5,000 for 2 winners, while Al Riadah customers had the chance to win OMR 25,000 in monthly draws and two winners of OMR 250,000 in the end of the year draw. In addition, there were monthly prizes for kids and youth plus additional prize draws in the Women's Day and National Day.

BankDhofar continued to offer a diverse selection of insurance packages such as Personal Accident insurance and Motor insurance. The Bank functions as an insurance agency and provides these services to meet customers' needs.

Digital Banking

Digital Banking comprises of:

- Alternative Delivery Channels
- Centre of Innovation
- Customer Engagement Hub
- Card Center

Digital Banking owns the digital strategy, services on digital channels, Acquiring & Issuing business and is responsible for delivering innovative services & products to support the Bank's business, growth, and transformation. In line with these goals, BankDhofar's Digital Banking team won the coveted ''Best Digital Bank in Oman 2020 by Asiamoney Middle East's Best Bank Award''.

As part of BankDhofar's transformation journey, the Bank restructured the division in 2020 aligning with the enterprise strategy and spearheading the strategic transformation initiatives for realizing BankDhofar's vision to be the Best Bank in the Gulf.

Center of Innovation

The Centre is an innovation-driven center to promote and create innovations that add value to BankDhofar.

The Innovation Centre was set up based on the main value definition adopted by the Bank: "Creating value through new ideas, every day and in every way", which is centered on encouraging the culture of innovation within staff, as well as promote innovation throughout all processes and functions, including creating new concepts for products and services.

The main aim of establishing the Innovation Center is to continue BankDhofar's dominance in customer experience and to remain the Bank of choice for all segments.

Building among the Bank's current and previous investments on systems and processes, to be able to capitalize on the opportunities efficiently, as well as produce effective Proof of Concept (POC's) and solutions to further support the vision of the Bank.

Main innovation outcomes of the year 2020:

- Memorandum of collaboration signed with the Information Technology Authority, Oman, (ITA) SAS 4th Industrial Revolution Centre, previously under the Ministry of Technology and Communication (currently The Ministry of Transport, Communications, and Information Technology)
- Workshop with Asyad, OTF, Phaze Ventures, and GUtech, for collaborations and innovative solutions
- 19 ideas presented for future POC's and implementation
- WhatsAppTM POC tested and completed
- Identifying departments and branches pain points for focused innovation solutions

Alternative Delivery Channels

Alternative Delivery Channels enable BankDhofar customers to access banking services easily via new, convenient, and innovative electronic channels (e-channels) which are available 24/7.

In 2020, Alternative Delivery Channels have successfully enhanced BankDhofar Mobile Banking App to be more user friendly with the added feature of Western UnionTM instant transfers around the world. The service is also available to non-customers, who can use this feature through their wallet accounts.

Additionally, the team has upgraded Maisarah Islamic Mobile Banking Services with unique services for customers, the new upgrade to the mobile wallet system which provides services to the Banked and non-banked customers. Maisarah Mobile Banking App enables customers to conduct several services including:

- Non-customer wallet user bill payments – top-up and Western UnionTM transfers
- Credit card pin view
- Enhanced the wallet feature by adding (person-to-person) p2p payments and (get-money) option
- Transfer from credit card to operative account
- Identity (ID) cards update through mobile banking
- Wage Payment Solution (WPS) system for salary payments for corporate customers

Customer Engagement Hub

BankDhofar Customer Engagement Hub is formed to manage the ongoing interactions between the Bank with current and potential customers.

By engaging with customers, keeping them informed, staying in touch, and keeping communication lines open, the Hub ensures better customer experiences, higher sales, and easier conversion of prospects.

With Inbound Contact Center (Easy Banking), Digital Relationship Management, Emails, Outbound calls for sales and to hear the voice of the customer, self-service channels, retention, credit collection, and transactional anti-fraud management, Customer Engagement Hub is striving to serve and interact with customers 24/7 with empowered phone bankers.

BankDhofar's Customer Engagement Hub delivers an outstanding customer experience at every opportunity, due to commitment, passion, and dedication to excellence.

In doing so, the Hub creates opportunities and value for customers, shareholders, employees, and communities.

Customer Engagement Hub looks forward to establishing a lifelong partnership with current and potential customers by understanding their needs, finding the right solutions, while aiming for maximum customer satisfaction and a continuous win-win relationship.

Customer Engagement Hub is established to be the best hub for customers with excellent customer experience in the region. The Hub is a strategic asset for BankDhofar, Maisarah Islamic Banking and Corporate Banking in generating results. The Hub ensures excellent culture for employees where people learn, contribute, and become masters of serving people in their financial needs.

Customer Engagement Hub aims to:

- Increase Efficiency
- Become a Profit Center
- Deliver Excellent Customer Experience

In line with the focus of giving excellent service to customers, Call Center is in the transformation journey to Customer Engagement Hub.

The accomplishments in 2020 were mainly:

1. Providing excellent service to customers during this unique year caused by global pandemic situation, without any interruption and supporting with additional major services provided by the Bank to the customers like Western UnionTM and Loan Deferment
2. Increased Customer Retention Rates
3. Reengineering Credit Collection Center, to help customers manage their overdue balances by engaging with them to avoid being classified
4. Started outbound sales pilots for credit cards, motor insurance and mobile banking
5. Established in a new location, to create a great working environment for great customer experience
6. Continued to work on the foundation of adding value to customers with improved processes and empowering phone bankers
7. Completed the targets for the transformation journey with 17 major initiatives

E-Payments

E-payment was providing strategies and commercial support to many other projects such as:

- Establishing the Thawani-BD relationship leading to becoming the first bank in Oman to provide all the backend settlement services that were required for licensing the county's first payment service provider Thawani - The first Omani FinTech.
- The below mentioned contactless sticker cards
- Establishing a live deposit acquiring solution through Cash Deposit Machines (CDMs) with Sale International (now known as Channels) this company is doing a lot of business with us with deposits reaching over OMR 5 million.

Card Center

- Card Service Center (CSC) Transformation:

This program has been recently kicked off, targeting to move CSC to a new era called "Payment Hub" towards digitalization and to cover most of the digital payments. The main objectives behind this are:

- To improve service
- To increase internal collaboration
- To optimize processes by changing it to automation & simplify the process
- To increase efficiency & turn-around time (TAT) for deliveries
- To become more agile to adhere to fast-moving marketplace
- To create a new business model covering the digital revolution
- To reduce the financial cost
- To improve employee performance by reallocating the right resource with the right skills/training at the right place
- To comply with regulatory mandates and fraud management
- To allow you to focus on core competencies and make the decision for things mainly in-house or managed through external parties

These objectives will contribute to achieving greater collaboration, agility, efficiency, and productivity, which will be reflected positively the organization.

Following are significant deliveries/enhancements achieved during the year 2020:

- In-house Point-of-Sale (POS) migration: with this delivery, the Bank can improve merchant on-boarding and POS-terminal deployment drastically, with additional controls. This has increased Corporate customer confidence with the Bank.
- Pay stickers (wearables); this was one of the Bank's fintech products which have drawn customers attention in making their daily payments easy and simple for purchase and cash withdrawals from BankDhofar Automated Teller Machines (ATMs)
- Business debit card; by moving this product into the branch instant issuance system, the Bank was able to meet its Corporate and SMEs needs instantly for their various payments especially with Government entities
- Maisarah Business Debit card (Islamic); this product has strengthened the ability of the Islamic Banking team to target more Corporate and SME clients
- Oman Air Local Payment Gateway Integration: With this, we have successfully stepped in by participating with local official & the only major airline to manage their local online payments
- Core Banking Transformation: Achieved enterprise level with the base system upgrade, and now we can accommodate further new digital & Fintech growth to align with the Bank's vision

Corporate Services Division

Marketing and Corporate Communications (M&CC)

Marketing and Corporate Communications Department looks into bringing the visibility of BankDhofar brand through various activities. In 2020, due to the exceptional conditions that were prevailing across the globe after the widespread of COVID19, the department conducted digital activities and campaigns.

In line with the directives of the COVID19 Supreme Committee, Ministry of Health, and Central Bank of Oman, BankDhofar has applied several preventive measures, for its staff and customers to avoid the widespread of Coronavirus. Thus, M&CC Department conducted a digital campaign "Your Health is Our Priority", which aimed to spread awareness among customers and the public on the preventive measures to avoid the spread of Coronavirus. Additionally, the campaign encouraged customers to conduct their banking transactions through BankDhofar's digital channels, including, Mobile Banking App, Internet Banking, ATMs, Full Function Machines (FFM), and CDMs.

Internally, "Salamtak" campaign was launched to spread awareness among staff on healthy practices to be safe and to create a healthy work environment, and to avoid the widespread of COVID19. The campaign also aimed to keep the staff updated with the any resolutions or decisions concerning COVID19.

In 2020, BankDhofar marked 30 years of successful operations, M&CC highlighted the achievements and success of the Bank since 1990. These achievements were topped with prestigious international, regional, and local awards. In 2020 only, the Bank bagged more than 10 awards including; Most Successful Companies in Oman Award by Forbes Middle East, Best Islamic bank in Oman - Maisarah Islamic Banking Services at the Middle East Banking Awards 2019 (EMEA Finance), Best Investment Banking Brand, Oman 2019 by Global Brand Awards, Best Business and Corporate Banking Oman 2020 by International Business Magazine, Best Digital Bank in Oman 2020 by Asiamoney Middle East's Best Bank Awards, Three Decades of Excellence in Banking Award by Oman Economic Review (OER), 'Banking Group Brand of the Year Oman 2020 by Global Banking and Finance Awards, Fastest Growing Islamic Retail Bank Oman 2020 - Maisarah Islamic Banking Services by Global Banking and Finance Awards, Banking Customer Satisfaction & Happiness Oman 2020 by Global Banking and Finance Awards, Most Innovative Islamic Banking Window (Maisarah Islamic Banking Services) Oman 2020 by Global Business Outlook.

Additionally, the M&CC department maintained the strong presence of BankDhofar brand in Muscat International Airport, Duqm, Salalah Airport through the jet bridges branding.

To keep up with the brand visibility, the department oversaw the merger and renovation of the branches network to ensure standardized design and to provide unparalleled banking experience across all branches of BankDhofar.

M&CC department conducted awareness campaigns for BankDhofar and Maisarah customers. These campaigns aimed at raising awareness among customers about the state-of-the-art products, services, financial solutions, and cutting-edge digital services provided by the Bank. The campaigns targeted customers through various touchpoints including social media and digital channels.

The department conducted comprehensive Savings Account Scheme and Prize Account Scheme campaigns, through digital and social media channels as well as through organizing various prize draw events. The campaigns aimed at instilling savings habit among different segments of the society.

The department also foresees the overall communication strategy, media relations, and internal communication. To enhance its internal communication strategy and ensure the circulation of effective messages to employees, the department continued internal campaigns including “Go Green” with Lean process, and Business Continuity Management (BCM) campaign. Additionally, to keep the staff updated with the initiatives the department continued sharing the updates of various achievements and event coverages through Internal Announcement communication and BankDhofar WhatsappTM. M&CC continued sharing quarterly updates through BD TV initiative. Marketing and Corporate Communications Department provides required support to other business units.

Financial Inclusion Initiatives

BankDhofar

As part of Financial inclusion initiatives, Marketing and Corporate Communications has taken the responsibility to communicate to all individuals and businesses owners various retail products and services that meet their needs and are delivered in responsible and sustainable ways such as; awareness campaigns (segment-wise), sponsorship events, newspapers’ press releases and advertisements, social media coverage.

M&CC has also optimized its spending verses exposure and focused on being visible in big way especially in high traffic areas, main highways, most visited spots in order to enhance BankDhofar brand visibility and ensure customer recall. The M&CC backed this strategy up with the strategic tie-up with Muscat and Salalah International airports where BankDhofar will have the highest exposure in these two important avenues in addition to selecting the best and highly visible outdoor locations across the sultanate in order to attract population to the bank.

Social Media channels were essential in promoting products and services and different offerings in addition to utilizing corporate communications tools in highlighting BankDhofar’s news and updates. The awareness campaigns don’t only target existing customer base, but they cover general population to encourage public to join BankDhofar.

BankDhofar has a branch network of 67 branches (57 for conventional banking and 10 for Maisarah Islamic Banking branches) (designed appropriately to entertain disabled customers) across Oman to cover all demographics for customer banking ease. Key branches have extended hours till 9:00pm to meet customers banking requirements after normal banking hours.

Apart from the current customer segments, the bank has introduced benefits to different segments to attract more customers to the bank.

In order to assure higher consumer engagements and retention, BankDhofar has one of the best mobile banking application which is 24/7 accessible for real time multiple transactions to migrate customer to mobile banking platform.

The Bank has introduced Customer Relationship Management (CRM) platform across its branch network to help the Bank focus on customer acquisition and encouraging more customer to bank while offering the best customer experience and better cross-sell to the existing ones.

Finally, the staff are trained regularly on multiple aspects of banking specially on selling skills and products available for each segment to ensure effective customer acquisition.

Maisarah Islamic Banking Initiatives

Maisarah constantly works on various awareness campaigns to increase the knowledge of Islamic banking in general and Maisarah in specific, which will help us to get more customers on board as well as working with entities and promoting conferences whereby special focus on Islamic banking is being created in the market.

They are continuing "did you know" posts on social media to increase the awareness on Islamic banking products in the market as well as having intensive mobile banking app campaign to bring in more customers to the mobile banking channel.

Furthermore, they launched the annual Prize Account Scheme and conducts the prize draws in various locations every month thereby increasing the awareness of Maisarah's products to the population. These draws are announced via social media and press releases periodically to assure awareness of the product.

Additionally, various projects are in progress and in different stages such as remittances, POS, Corporate Cards, which will surely bring in more customers to Maisarah.

Maisarah's staff members are continuously trained and encouraged to market and cross-sell its products, thereby increasing the customer base of Maisarah.

Maisarah is in the process of rolling out branches as well as relocating some of the existing branches, open kiosk and commission mobile branch. This will help us to increase the footprint in locations where the Bank do not have presence or further penetrate into the market which will be contributing to reaching out to potential customers.

Information Technology Division

At BankDhofar, Technology is the cornerstone for the operational resilience and the lever for growth and transformation. The Information Technology division supports the Bank's 'run-grow-transform' model of operations and owns the technology strategy, application systems, digital channel systems and infrastructure.

The year 2020 imposed unique challenges for the Bank's operations because of the global pandemic and thanks to the timely deployment of technology solutions especially on remote working, digital collaboration models and scaling up of digital and self-service channels for customers, we could successfully overcome these challenges and ensure superior customer service.

The Bank continued the transformation journey by accelerating the planned programs despite the pandemic related challenges by leveraging technology tools and solutions as well as through new operational and delivery models. As part of the Bank's digital strategy, new digital payments services such as Western UnionTM remittance was launched through the award-winning mobile banking platform. The Bank launched pay sticker in 2020, a unique product and a first in Oman that enables customers to tap and pay at merchant outlets and contactless transactions from near-field communication (NFC) enabled ATMs through any gadgets that has the sticker.

One of the major transformation programs that was completed during the year was the upgrade of the core banking system to the latest version with microservices architecture; thus future-proofing the technology investments and paving the way for continued technology leadership on digital capabilities and innovation. The technology infrastructure including servers, storage and the network was also upgraded to support future growth as well as enhanced connectivity, availability, performance, and security. The Bank also undertook technology initiatives to ensure compliance with the latest regulations and accounting standards.

The business process management platform was enhanced with high availability architecture and improvements on several automated processes. The Bank also continued the ongoing investments on enhancing cybersecurity and upgrades of hardware infrastructure

Central Operation Division (COD)

Central Operations Department (COD) plays a major role in handling back-end operations, thus enabling the branches and business units to focus on customer service and business development. The volume of transactions processed at COD continues to grow in line with the Bank's overall business growth. Continuous efforts are being made to redesign and simplify the processes by implementing lean sigma concepts, effective utilization of technological solutions, and thus increasing the staff productivity.

In the year 2020, COD, which is a part of Operations, has successfully implemented the following process re-engineering / automation:

1. Process Change by adding purpose of payment codes in outward remittances to meet regulatory requirements of Central bank, United Arab Emirates (UAE).
2. Automation of Weekly ATM/CDM Inspection Report through Intelligence Business Process System(iBPS).
3. Launch of iBPS for Opening of Corporate/Retail accounts, Retail customer information file (CIF) update, Account Maintenance, Car Loan, Premature Closure of Deposit and Loan maintenance.
4. Process improvements in Remote Cheque Capture & Deposit (RCCD).
5. Management of Data Quality of newly opened accounts through iBPS system
6. Report for monitoring new account opened Retail, Corporate accounts.
7. Implementation of the payment module (part of core transformation)

In addition, 29 staff have completed their Lean Six Sigma yellow-belt projects, 10 are in progress, in addition to the staff, who have completed their Yellow Belt projects in the previous year. 1 staff has completed a Green belt project and a few more have initiated the process.

Business Continuity Management (BCM)

In terms of regulatory requirements, the Bank has in place Business Continuity and Disaster Recovery Planning always aiming at continued operations and customers' services. Bank undertakes reviews and methods to ensure its capability to meet the contingency arising out of any unforeseen disasters, technological failures, and various other threats. In this regard, the Bank has taken several measures to strengthen the BCM implementation in the Bank. The key initiatives include:

- An exclusive Business Continuity Management (BCM) Department has been set up under Enterprise Operations Corporate Services to deal with such as identification, assessment of risks, reporting of Business Continuity Plan (BCP) activities, conducting BCP testing, organizing BCM awareness programs, issuing alerts to staff during adverse weather conditions, maintaining updated BCP document, conducting quarterly BCM Committee meetings, addresses regulatory and compliance /audit issues.
- Risk Assessment exercise is undertaken on annual basis to review the BCP-related risks and mitigation requirements. Business Impact Analysis (BIA) exercise is conducted on half-yearly basis to identify and assess BCP back-up requirements by interacting with nominated Business continuity coordinators.
- Bank has set up an exclusive BCP Steering Committee, entrusted with the responsibility of overseeing BCM implementation and maintaining a sound BCP for the Bank. The Committee is reporting to the Board Risk Committee (BRC). The Committee is meeting on a quarterly basis to review that BCP formulated across the Bank are implemented and tested.
- Bank has set up state-of-art an alternate BCP site for resuming critical business activities in emergent scenarios. In the same location, Bank has also set up a secondary Data Back-Up Center as part of the Bank Disaster Recovery (DR) Plan.
- Various BCP testing are adopted to ensure that the Business Continuity Plan is logical and practically feasible. As part of this testing plan, Bank undertakes two major types of testing
    - o BCP Simulation testing under partial disruption scenario (what if the current work location is not available) and
    - o IT DR Drill under full disruption scenario (Primary data Centre not accessible/ unavailable scenario). During the year under review, Bank has conducted annual BCP Simulation testing (from November to December 2020) and IT DR Drill Exercise & BCP Testing: DR sanity for the upgraded Core Banking platform was done by IT in December 2020.
- Besides this, Bank conducts several other types of BCP testing such as Database back up testing, Back-Up branches testing, etc. to test the adequacy of systems and business resumption procedures in various disruption scenarios. And the Tabletop testing exercise is conducted to cross verify the preparedness of Business continuity leaders.

- In terms of disaster recovery and safety measures, fire drills are carried out as per requirements.
- Staff are provided periodical training on BCM aspects. Different programs are customized to cater to the different target groups. Importantly, during the period under review, customized specialized BCM e-Training Programs have been organized to benefit all end-users to undergo mandatory BCM programs at their convenience either at the office or at home. Also, as part of promoting BCM Awareness, new innovations are introduced such as screensavers containing BCM Messages and BCM posters explaining the importance of BCM strategy and the steps that should be taken.
- The Bank is in the process of obtaining BCM – ISO 22301 Quality Certification. Currently, Gap analysis along with a Corrective Action plan is implemented to strengthen the BCM capabilities, prior to obtaining Certification.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency. The contact detail of key officials is provided below:

Position	Contact information (+968 prefix)
Head of BCM Steering Committee – Acting AGM and Head of Ops & Support Services	24 790 466 - Ext:215 GSM: 9923 5197
Manager - BCM	24790466 Ext.: 754 GSM 93333318
Manager - BCM	24790466 Ext.:754 GSM 99757837

Credit Administration Department

Credit Administration Department (CAD) is the backbone for the lending related operations of the Bank. CAD department structure is formulated in a manner to accommodate post sanction operational process. This pertains to limit maintenance & disbursements, controlling of facilities & collateral documentation, pricing management & lodgment of security documents etc. These activities are carried under specific units allocated for Large Corporate Division, Business Banking and Retail Banking. Each of the units comprises of portfolios handled by portfolio holders and team leaders who are managed by a specialized unit manager.

These units are entrusted with the tasks to carry out the post loan-sanction activities such as identifying the borrowers legal structure and validate and review the know-your-customer (KYC) documents , Identify, value, and prudently classify and record the collateral, attach Bank's security interest in the collateral module and perfect the lien position in the collateral and also managing legal agreements , preparation of Covenant Compliance Reports, Key Risk Indicator monitoring and other monitoring tools to manage the loan portfolio. An additional CAD support unit was formed in the newly established Corporate Centre in Azaiba in providing swift services to the clients to reduce the turnaround time for many CAD related transactions.

As a key support procedure for the business segments of Retail and Corporate Banking, CAD has an established unit for public relations office (PRO) activities, which handles mortgages/joint registrations in Ministry of Housing and Urban Planning, Ministry of Commerce, Industry, and Investment Promotion (MoCIIP) & Royal Oman Police (ROP) & the unit liaise with Muscat Security Market for the creation of pledge and release of shares. Additionally, the unit carries in out the preparation of Arabic letters to the external authorities for various requirements such as No Objection Certificates etc.

The Housing Loan Documentation Unit, which is allocated under the CAD Retail Segment, carries out custodian services for original housing loan documents and periodical revaluation for the purpose of MIS reporting for Capital Adequacy computation.

CAD has a Branch Support Unit which manages day to day activities which are centralized at the department. The system rights to handle these activities are solely entrusted with CAD. These activities include lien management, classification/de classification end process, blocking/de blocking end process as well as loan rescheduling and pricing related activities pertaining to the retail segment.

Another key activity handled by CAD is the role as the focal point and carries out the administration of the Oman Credit and Financial Information Centre (OCFIC) activities previously known as the Banking Credit Statistics Bureau (BCSB) of the Central Bank of Oman. This unit coordinates reporting, exception management, access control, complaint management as well as Management Information system (MIS)/Regulatory reporting pertaining to the Senior Management of the Bank. This BCSB unit directs the other related periodical regulatory reporting with the prudent coordination of divisions such as Business, Finance and Compliance. CAD plays an active role in the CBO's initiative of establishing the new Oman Credit Bureau (OCB). The unit is also entrusted with formulating the CAD policies and standard operating procedures (SOPs).

As a steppingstone for a self-development, CAD originated an intra departmental staff learning & development section where staff members are given a choice to conduct their own periodical presentations and training programs to share the knowledge of their respective areas as well as their learnt skills. By initiating this CAD ensures there is a prudent transformation of knowledge as well as to enhance the presentation skills of the staff member.

As a vision for the future and the rapidly changing business environment, CAD has embarked on re-engineering and developing of the unit and the processes through Lean Six Sigma and 5s concepts using tools such as Robotic Process Automation (RPA) and Intelligent Business Process System (iBPS).

Policies and Procedures Department

Policies & Procedures department (PPD) continues to maintain an integrated model for linking strategies with everyday business processes & decision making at every level.

The maintenance of above stated integrated model brought together, standardized, and systematized all risk, control, compliance, and governance processes. Further, it helped in improving efficiency of the operational framework.

PPD mainly undertakes following activities:

- Act as nodal department and work closely with Management, Business, Operations, and Others to maintain and improvise internal governance & control framework of the Bank.
- Ensure that documents are designed to support business strategy & operations and promote sound working practices.
- Ensure that documents are accurate, clear-cut, presented consistently & uniformly, and easily identifiable & accessible.
- Ensure that documents are periodically reviewed for accuracy and applicability to address changing business dynamics.
- Ensure proper review mechanism/approvals are obtained and kept on record.
- Ensure that respective staff of units are provided with updated document through common shared folders and/or suitable mode of sharing and updated regularly & on timely manner as ongoing process.

Apart from the core activities of developing and reviewing policies & procedures, PPD serves as member to Management Risk Committee, and continues to contribute significantly in successful implementation of various projects assigned time to time.

Legal Department

The Legal Department provides legal support and advice to all the Bank's departments and branches in order to safeguard the Bank's interests and prevent breaches. This is achieved by coordinating with the Bank's departments and branches to ensure correct implementation and interpretation of laws, regulations, circulars, and internal policies.

- The Legal Department is well established with an experienced team of lawyers and paralegals. Work is streamlined between the team members to increase turnaround time and quality of the work.
- There has been an increase in the number of case settlements with customers and quicker responses to claims.

- The Legal Department conducts most of the review and drafting of contracts in-house to protect the Bank's interests and minimize risks while also improving quality and turnaround time.
- The Bank's policies and terms and conditions for both existing and new products, services, and standard forms are reviewed and updated in coordination with relevant departments.
- Various committees include the participation of the Legal Department.
- The Legal Department coordinates with the Central Bank of Oman, Capital Market Authority, Royal Oman Police, Public Prosecution, and other authorities as required.

Compliance Division

Compliance activities in the Bank are guided by the Central Bank of Oman (CBO), Capital Market Authority and other international capital market guidelines applicable to us from time to time, local and international applicable statutory guidelines/ obligations and international best practices.

The Board of Directors has established an effective compliance function in the Bank and enforce its activities through a set of Board-approved policies and procedures. While, the first line, guided by Senior Management, ensures day to day operational management of compliance risk; at the same time, Compliance Division is entrusted to independently look after effective management of compliance risk in the Bank by conducting periodic compliance testing, monitoring of regulatory limits, conducting gap analysis with applicable regulatory & statutory guidelines, transaction monitoring, transactions screening, screening of customers, etc. The Board approved Compliance Policy empowers Compliance Division to have direct access to the Board of Directors. However, for routine compliance risk-related issues, Compliance reports directly to the Board Risk Committee (BRC) for necessary guidance. Considering BankDhofar's "Together 2020" vision, the Bank has undertaken a fundamental restructuring of its Compliance function, aiming to be the best amongst its peers. In the last 3 years, the compliance operational landscape has shifted to maintain 'zero' level non-compliance risk in the Bank. In 2018-19, Bank engaged an external consultant of international repute to review the Compliance activities within the Bank. The final report accepted by the Board. In 2020, Bank engaged another external compliance consultant of international repute for the compliance transformation program, titled Financial Action Task Force (FATF) Anti-Money Laundering (AML) Compliance Design & Implementation, and they have commenced the program since January 2020 which is currently under progress. The primary objective of the program is to ensure ongoing compliance with regulatory guidelines and relevant international standards and the best practices in letter and spirit.

The Bank strictly follows regulatory mandates and Financial Action Task Force (FATF) recommendations on Know Your Customers (KYC)/ Customer Due Diligence (CDD), Anti-money laundering (AML)/Combating Financing of Terrorism (CFT) and Proliferation as well as sanctions resolutions passed by United Nations Security Council (UNSC). Customers of the Bank are risk-rated, periodically reviewed and screened from the sanctions database and Suspicious Transaction Reports (STRs) are raised in case of suspicious transactions as per legal and regulatory requirements in Oman. The Bank relies on state-of-the-art IT systems of international specifications to monitor transactions for AML. Moreover, the system has been operationalized to screen SWIFT® transactions/messages in real-time from the sanctions database and screen customers from the database of sanctions, Politically Exposed Persons (PEPs), adverse media, etc. BankDhofar is registered as Participating Foreign Financial Institution (PFFI) with Internal Revenue Service (IRS), Treasury Department, United States of America (U.S.) for Foreign Account Tax Compliance Act (FATCA) Regulations. Bank has also successfully implemented regulations based on the Organization for Economic Cooperation and Development (OECD) Common Reporting Standard (CRS).

To promote value-based compliance culture and set the right tone at the top, Bank has conducted Compliance related training for Board members and Senior Management. Throughout the year, dedicated programs were carried out for staff training and development, including retention testing of previously trained staff. In addition to specific classroom training, mandatory e-Learning courses have also been adopted in the Bank for all staff which are required to be passed annually. Relevant staff in Compliance Division were trained in their operational areas. Compliance officials have coveted Certified Anti-Money Laundering Specialist (CAMS) certification from Association for ACAMS, in addition to the International Diploma in Governance, Risk and Compliance and Advanced Certificate in Managing Sanctions Risk examination by International Compliance Association (ICA) and are fully geared to face the emerging issues/ challenges on account of growing profile of the Bank.

Risk Management Division

The primary responsibility of understanding the risks assumed by the Bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of the Bank. The Board has set risk policies, limits and procedures by assessing the risk-bearing capacity of the Bank.

The overall risk management has been delegated to an independent Board Risk Committee (BRC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRC relies on an independent Risk Management Division within the Bank.

The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

The Bank's risk management strategy statement is expressed as follows:

1. Compliance with regulatory capital requirements;
2. Ensuring balanced performance across business units;
3. Placing emphasis on the diversity, quality and stability of earnings;
4. Making disciplined and selective strategic investments;
5. Maintaining adequate capital adequacy;
6. Providing qualitative and quantitative benchmarks to gauge broad alignment between initiatives and risk appetite;
7. Stable funding and strategic liquidity management allowing for business planning within the liquidity risk tolerance and regulatory requirements.

In 2020, Bank embarked on a transformation program to comprehensively review and strengthen the risk management area and align it with best practices. Under the transformation program, a review of the Bank's current risk management policies, procedures, processes, skill sets, risk information and reporting system and risk appetite was conducted by independent external experts and improvements made to strengthen risk management and develop it as an area of core competence for the Bank.

1. Risk Appetite

Bank has established a risk appetite framework, duly approved by the Board consisting of the risk appetite statements and dashboards. The framework is operational for the Consolidated entity ie for Conventional entity and Maisarah Islamic Banking Services. The framework is based on a top-down process consisting of specific quantitative and qualitative factors and provides an enforceable risk statement on the amount of risk the Bank is willing to accept in support of its financial and strategic objectives. The risk appetite statement set the "Tone from the Top" and covers various risk factors and appetite against each risk factor. The risk appetite is a key building block of the Bank's risk management culture and risk management framework. The Risk appetite statements are reviewed by senior management who recommend it to the Board for approval. Annual financial plans are reviewed against the risk appetite to ensure alignment. Regular monitoring of risk exposures is carried out to ensure that risk-taking activity remains within risk appetite. Performance against approved risk appetite is measured every quarter and reviewed by the Management Risk Committee, Board Risk Committee & Board. The Bank risk appetite framework has been cascaded to key business segments thereby ensuring that the Bank's aggregate risk exposure is within its desired risk-bearing capacity

2. Management of various Risks

A brief account of the various identifiable risks and their risk management process is given below:

1) Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty may fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. The Bank has taken the following measures to mitigate credit risk:

- Credit Risk Policy addresses credit risk emanating from lending to corporates and individuals. The policy also provides broad criteria for retail loans in a structured manner and is reviewed/ updated on regular basis. The policy has been defined for both Conventional Banking and Islamic Banking separately. The policies of the Bank encompass organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.
- Policy on Country and Counterparty Bank credit risk addresses credit risk emanating from exposure to banks as counterparties as well as countries. The maximum exposure that can be taken on a counterparty bank is specified by an internally developed model.
- The Bank has a credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7. The rating models have been duly validated by the Bank through an independent third party.
- Various credit risk models are used to assess the obligor risk as well as the facility risk and while assessing the credit risk of the borrower, both probability of default and loss given default is estimated.
- Risk-Adjusted Return on Capital (RAROC) is computed to assess the risk-based pricing of each facility, which facilitates in informed decision making.
- The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.
- All the corporate credit proposals from both conventional banking and Maisarah are reviewed by the RMD to assess the risk factors and suggest mitigates. The observations of RMD form an important input in credit decision making.

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties, elaborate and well-defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

2) Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to the counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

The Bank has constituted an Asset-Liability Management Committee (ALCO), which is responsible for setting the broad framework for managing the liquidity risk effectively for both the conventional banking and Maisarah. The responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department of both the entities; conventional banking and Maisarah, which discharges this function with the assistance of other business divisions of the Bank.

The Bank has Board approved policy for both the entities on liquidity management which encompasses the assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has set up a Middle office within RMD to ensure that the Treasury Departments of both the entities operate within these guidelines.

The Middle office regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank all the time, to meet any business exigency.

3) Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rates, exchange rates, bonds, equity, and commodity prices. The Bank has major exposure in currency, equity and interest rate risk.

Asset-Liability Management (ALM) Policy and Investment Management Policy addresses all the aspects of the market risk. The ALM Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is United States Dollar (USD). The established parity between US Dollar and Omani Rial (OMR) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop-loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per the prudential norm set by the Central Bank of Oman (CBO). All these limits are monitored by the Middle office of the Bank.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in the interest rate on profitability and economic value of equity in Conventional entity.

Maisarah is also vulnerable to rate of return risk (profit rate risk) and Asset Liability Management (ALM) Policy of Maisarah addresses this risk. Rate of Return risk arises because of unexpected changes in the market rate of return, which adversely affect a firm's earnings. The profit distribution to Investment Account Holders (IAHs) is based on profit-sharing agreements and thus, Maisarah should not be subject to any significant rate of return risk. However, in order to meet customer's expectations and to remain competitive with the market, Maisarah may forego part or all of its Mudarib share of profit on funds managed on behalf of IAHs, in order to increase return to the IAHs. This absorption of additional risk by the Mudarib is known as Displaced Commercial Risk. Maisarah seeks to mitigate this risk through prudential reserve accounts such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

The middle office monitors the equity portfolio through daily reporting and assesses the risk inherent in the quoted domestic equity portfolio through the Value at Risk (VaR) approach. Various limits like stop-loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk. All the investment proposals are reviewed by RMD to provide an independent view on the risks associated with them.

The middle office also conducts stress tests periodically to assess the impact of adverse movement of market variables on capital adequacy and places the same to the Board Risk Committee.

4) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, people, or external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Management Risk Committee (MRC), comprising of the Executive Management team of the Bank, precedes BRC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for the management of operational risks within their respective scope of duties. In the financial year 2020, the Bank's operational risks were well controlled and losses from operational risks were kept at a low level. Trained and competent staff oversee the various operational functions of the Bank.

The Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. Continuing the task of improvement in existing systems and processes, the management system and tools for operational risks were further strengthened during the year.

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assesses the operational weaknesses in various processes and its likely impact on the Bank. During the RCSA exercise, processes in various departments were reviewed from an operational risk point of view and wherever high-risk events were identified, the existing controls were reviewed. With the completion of the RCSA exercise, a risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

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

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

5) Country Risk

Country risk arises from changes in the value of foreign exposure due to country-specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

Country & Counterparty Bank Credit Risk policy addresses the country risk that may arise due to cross border exposure, in a structured manner. The Bank has in place a country risk assessment methodology that grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.

The Middle office in association with the Financial Institution department monitors the country's risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

Recovery Department

Recoveries Department is established under Risk Management Division and is primarily responsible for handling and monitoring all Non-Performing Assets. The department is mandated to ensure the implementation of policies / instructions of the Bank pertaining to the recovery of overdue under all non-performing loan and advances. The main objective of the department is to maximize the recovery by adopting various methods such as;

- Close follow up with the customers for recovery of past dues before initiating legal action.
- Negotiating for mutually acceptable settlements.
- Re-structuring the classified accounts with a definite source of repayments.
- De-classification of accounts in terms of the Bank's extant instruction and CBO's regulation in place from time to time.
- Liaison with Legal Department for demand notices and taking legal action for recovery.
- Regularly monitoring the progress of legal cases with the Bank's external lawyers.

- Coordinating with Royal Oman Police (ROP) and regulatory bodies to expedite various legal processes and execution of decrees and court orders.
- Providing information to Court Appointed Experts for the legal action initiated by the Bank.
- Gathering and maintaining market information on assets and investment of defaulters.
- Handling Asset Classification, monitoring security/ valuation of mortgaged assets.
- Validating/ maintaining provisions for Loan Loss Reserve/ Interest Reserve as per IFRS9/ CBO norms.
- Maintaining an effective MIS system.
- Regulatory Reporting – Internal/ External Auditors, CBO Examiners, Internal Departments/ Control functions

Internal Capital Adequacy Assessment process

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is an integrated enterprise-wide process that encompasses the governance, management, and control of risk and capital functions within the Bank. It provides a framework for ensuring an appropriate relationship between the risk profile and the capital held by the Bank, both in absolute terms and in terms of composition (Tier I & Tier II). This alignment between the capital and risks makes for better risk management.

The ICAAP covers the assessment of risks under Pillar 1 and Pillar 2 risks, viz. interest rate risk in the Banking book, concentration risk, business risk, reputation, legal and strategic risk. The ICAAP is facilitated by Risk Management and is supported by numerous functional areas which together help determine the Bank's internal capital adequacy assessment.

A Separate Working Group on Capital Planning under ALCO, monitors the overall adequacy of the Bank's available capital in relation to both internal and regulatory capital requirements.

Human Resources Division (HRD)

The Human Resources Division has played an instrumental role in BankDhofar's Transformation Journey "Together 2020" especially in encouraging a strong People & Performance Culture which is one of the key pillars of the Together 2020 transformation journey. In collaboration with the leadership team and the Board, the department has been able to drive and deliver corporate HR Transformation Programs and Projects developed with the strategic intent and objective to create a strong Performance Culture. The Bank has successfully implemented more than 50 Programs and Projects under the HR Transformation Journey: creating and building the right Culture, People, Processes and Systems.

BankDhofar, believes that people are the key competitive advantage and biggest differentiator to continue driving sustained performance. The Department strives to develop and invest in people at all levels of the organization through a common purpose to align all stakeholders' objectives, goals, and aspirations. Additionally, the department has also trained and certified a group of mentors to serve as role models for the purpose of promoting personal and professional development in the youth.

The Human Resources Department also ran a youth development program to provide a platform for young Omani Talent to learn and gain exposure to different work environments & corporate practices. The above program gave the employee the necessary functional exposure & business models to enhance niche skills, exchange ideas and views on areas related to Service Excellence, Technical expertise, and international/regional best practices.

The primary objective of the HR Strategy is to enhance employee experience, engagement, open communication & regular feedback as well as empowering employees to grow by creating an environment that supports and fosters a high-performance culture.

Talent Management, Development & Retention

From a talent perspective, the department will continue to focus on talent development and retention by developing and implementing career development programs, career opportunities, and by implementing competitive total rewards and recognition schemes that stimulate aspirations. These programs are tailored for different talent segments in the Bank with the goal of creating specialized capabilities in different emerging businesses as well as a customer-centric drive across BankDhofar. Additionally, the Bank has conducted various programs targeting different talent segments across the various levels in the organization to develop specific functional and technical competencies to cater for the future succession planning needs of the Bank

The Bank will also work on building talent to ensure that all high-performance individuals and teams have the right career development opportunities to grow and achieve their potential and career aspirations. As a result of these programs, BankDhofar has been able to achieve 94% Omanization and an attrition rate of less than 5%, being one the lowest in the Omani Banking Sector.

Learning & Development

The Human Resources division has a leading learning & development Academy that runs various training and development needs under the brand "Performance Academy". The Academy is the state-of-the-art facility and core Hub for all the Learning and Development initiatives in the Bank aiming at improving employee performance, productivity, and career development. The Academy has an "Any Time Anywhere Learning" digital e-learning tool available for employees. This blended learning management tool provides employees the flexibility to complete the courses assigned to them at their convenience from their work desk using the LMS portal or from home using the LMS mobile application. As a part of this initiative, various eLearning programs have been launched during the year which covers Lean Six Sigma and most of the regulatory programs including Anti Money Laundering, Anti-Fraud, and Information Security Awareness.

The Performance Academy worked as a driving machine to ensure that the lean Transformation Programs are cascaded across the Bank through trained professional lean practitioners. These practitioners led and championed lean processes for their respective businesses and operating units to achieve the Lean Operating Model.

Furthermore, and to build Omani staff skills and competencies, the Bank has also implemented specialized Banking programs. These programs include various Master Class Programs through internationally recognized training providers and Secondment programs to other Banks across the globe to build the right capability for high potential Omani talent.

Digital People Program

As an integral part of the digital people strategy, BankDhofar has automated over 80% of its employee services and benefits and has established an HR Contact Center to better serve the staff. The Division's focus is to continuously enhance employee-related services and experiences across the Bank and enable faster turnaround time, swift processing, and service quality. Through the Digital People Program, the Human Resources Division will strive to provide all the Onboarding, Talent Management, people analytics and essential banking services through a one-stop Digital Platform to staff online.

Compensation Policy

In line with the CBO guidelines on remuneration disclosures, the Bank has described the relevant qualitative and quantitative disclosures in this Report.

Qualitative Disclosures:

The Compensation Policy supports the Bank's long-term business objectives. The current compensation practices are in line with the guiding principles of the CBO guidelines spanning across Risk Management and Risk Tolerance, supporting the business strategy, objectives, values, and long-term interests of the firm avoiding conflicts of interest, governance, managing the control functions' pay, remuneration and capital management and profit-based measurement and risk adjustment. The Policy is reviewed at periodic intervals.

The Bank has a Board Nomination & Remuneration Committee (BNRC) which consists of a minimum of three Board Members, with one Member representing the Risk Management Committee of the Board, The Committee's mandate is to frame compensation policy, systems, and processes for implementation and or review.

The Total Rewards Strategy of the Bank supports the growth of the Bank in line with the long-term vision and objectives that take into account the long-term health of the institution and financial stability, while at the same time accomplishing the following goals related to key talent:

- Attract and retain employees
- Motivate and reward performance
- Align rewards with the organizational culture
- Drive synergy between organizational and employee performance
- Encourage desired behaviors and recognize the required results
- Focus employees on achieving the organizational goals and objectives
- Ensure Pay mix is appropriate to generate desired productivity, behavior and in line with CBO guidelines
- Transparent and lucid compensation systems to ensure employee adoption

Material Risk Takers

Material Risk-takers are identified to include AGM & above and all staff with bonuses of more than OMR 35,000, within the agreed framework and in line with CBO guidelines. The Bonuses of the MRT's are deferred over the 4 years period wherein the first year, 55% of the bonus' paid as cash and the balance is paid equally over the subsequent 3 years, subject to certain conditions relating to malus and clawback. The Compensation Policy also specifies the treatment of payments of unvested bonus payment considering various scenarios.

Risk Adjustment

Through a series of measures, the Bank ensures that effective risk management processes are embedded into compensation systems addressing both ex-ante and ex-post adjustments. The risk-adjusted bonus funding mechanism comprises of the key components including Compensation Governance, Determination of Bonus Methodology, identification of Employee Segments, and the Deferral Schedule.

The risk-adjusted bonus funding mechanism shall comprise of Compensation Governance, Determination of Bonus Methodology, Employees Group, and Deferral Schedule. However, this mechanism will not be applied to accrue for the bonus pool for the control functions staff.

The existing methodology to determine the risk-adjusted bonus funding mechanism is summarized below:

1. The Bank assesses its liquidity and capital requirements prior to approving the bonus pool
2. The net profit is adjusted to factor in the various risk exposures faced by the Bank
3. The Bank bonus distribution to its staff is based on the performance against pre-determined measures.
4. This consists of both short term and long-term incentives as appropriate to the employee's role.

Control Functions

The Bonus for all staff employed in the Control Functions will be derived through a specific plan that has been designed to be in adherence with the CBO guidelines. This plan is based on a separate mechanism which has been designed to incorporate the current Market Price for the jobs as opposed to the Bank's performance.

Malus and Clawback

The policy of Malus and Clawback is in place, in order to ensure that the bonus is paid based on accurate financial and operating data. If the Bank determines to seek recovery for the bonus payment due to causes that are mentioned in the Policy, the Bank shall have the right to demand from the staff to reimburse such amount to the Bank.

Quantitative Disclosures

The Board Nomination and Remuneration Committee (BNRC) has held 4 meetings in 2020. As per the Policy, the bonus pool is a variable factor and depends on the overall performance of the Bank; the Pool is funded by taking a percentage of the Net Profit.

The 5 key management members and their salaries and bonuses for 2020 were OMR 1,601,475. The amount disclosed is the amount paid for the reporting period. Certain components of the key management bonuses are paid on the deferral basis as per the guidelines issued by the Central Bank of Oman.

Financial Performance

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

An analysis of our key gross loan portfolio by segment is tabulated below:

Description (RO 000)	31-Dec-20	31-Dec-19	Growth %
Gross Loans/Financing	**3,409,775**	3,181,597	7.17%
Retail Loans/ Financing	**1,259,193**	1,286,585	-2.13%
Corporate Loans/Financing	**2,150,578**	1,895,012	13.49%

Analysis of our Loan portfolio by product is tabulated below:

Loans, advances and financing to customers (RO 000)	31-Dec-20	31-Dec-19	Growth %
Overdrafts	**123,762**	137,827	-10.20%
Loans	**2,670,470**	2,425,730	10.09%
Loans against trust receipts	**83,750**	109,865	-23.77%
Bills discounted	**39,089**	46,898	-16.65%
Advance against credit cards	**8,521**	9,450	-9.83%
Islamic Banking Window financing	**484,183**	451,827	7.16%
Gross loans, advances and financing	**3,409,775**	3,181,597	7.17%
Less: Impairment allowance	**(144,287)**	(118,247)	-22.02%
Net loans, advances and financing	**3,265,488**	3,063,350	6.60%

Customer deposits, including Islamic deposits decrease by 2.78% from RO 2.94 billion (USD 7.64 billion) at the end of 2019 to reach RO 2.86 billion (USD 7.43 billion) at the end of 2020.

The analysis of our Key deposits by product is given below:

Deposits from customers (RO 000)	31-Dec-20	31-Dec-19	Growth %
Current accounts	**612,720**	621,320	-1.38%
Savings accounts	**487,924**	457,380	6.68%
Time deposits	**1,375,215**	1,449,677	-5.14%
Margin accounts	**12,194**	9,590	27.15%
Islamic Banking Window deposits	**373,262**	405,221	-7.89%
Grand total	**2,861,315**	2,943,188	-2.78%

The Net Interest Income and income from Islamic Financing activities earned were RO 109.06 million (USD 283.27 million) for the year 2019 as compared to RO 107.64 million (USD 279.58 million) during 2020, a decrease of 1.3%. However, Non-funded income increased by 6.89% year-on-year reaching RO 22.35 million (USD 58.05 million) in 2020 as against RO 20.91 million (USD 54.31 million) for 2019. The total operating income is RO 129.99 million (USD 337.64 million) for the year 2020 as compared to RO 129.96 million (USD 337.56 million) for the year 2019, year-on-year increase of 0.02%.

Total Operating Expenses decreased to RO 65.08 million (USD 169.04 million) for the year 2020 as compared to RO 71.47 million (USD 185.64 million) for the year 2019, 8.94% year-on-year decrease. Excluding RO 1 million Corporate Social Responsibility (CSR) Donation made during 2020, Operating Expenses decreased by 10.34% year-on-year. As part of planned programs and speeded up due to the global Covid19 pandemic impact on the economy, Bank carried out several programs for cost reduction during the year 2020. While most of the cost savings are aimed to be sustainable on an on-going basis certain component of the savings (around RO 1.5 million) in 2020 are one-off. This helped improve the cost to income ratio to 50% in 2020 from 55% in 2019.

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

Funding and Capital Raising initiatives

The Bank carries strong capital position of Core Equity Tier 1 Ratio (CET-1) of 12.36% as at 31st December 2020 (12.59% as at 31st December 2019), Tier 1 Capital Ratio of 16.18% (16.40% last year) and total Capital Adequacy Ratio of 17.61% (17.86% last year), compared to Regulatory Minimum of 8.25%, 11.25% and 12.25% respectively.

Proposed Dividends

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

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

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

FINANCIAL HIGHLIGHTS
OF LAST FIVE YEARS

FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS

(OMR'000)	2020	2019	2018	2017	2016
NET INTEREST INCOME (CONVENTIONAL)	92,219	84,649	87,918	84,605	90,786
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES	15,421	10,182	9,509	8,521	6,874
NON INTEREST INCOME	22,353	35,133	34,426	33,801	29,691
OPERATING COSTS	65,079	71,474	65,456	58,994	56,767
OPERATING PROFIT (before Impairment losses)	64,914	58,490	66,397	67,933	70,584
PROFIT FROM OPERATIONS	35,923	36,092	59,743	56,031	54,429
NET PROFIT FOR THE YEAR	**30,585**	**30,244**	**50,281**	**47,627**	**47,622**
At year-end					
TOTAL ASSETS	4,257,023	4,325,845	4,213,490	4,246,710	3,952,043
NET LOANS, ADVANCES AND FINANCING	2,911,990	3,063,350	3,158,844	3,248,873	2,988,592
CUSTOMER DEPOSITS	2,861,315	2,943,188	2,924,504	3,068,409	2,885,189
TOTAL EQUITY	695,864	686,155	698,162	587,007	534,000
SHARE CAPITAL	299,635	299,635	280,033	225,786	189,920
FULL SERVICE BRANCHES	67	71	71	69	68
ATMs / CDMs / FFMs/ MFKs	193	194	190	179	180
STAFF	**1,522**	**1,586**	**1,600**	**1,514**	**1,478**

FINANCIAL RATIOS
OF LAST FIVE YEARS

Financial Ratios of Last Five Years	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
1. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	4.43%	4.37%	7.82%	8.50%	9.42%
Return on Weighted Average Shareholders Equity	5.71%	5.64%	9.92%	10.70%	12.22%
Return on Weighted Average Paid-up Capital	10.21%	10.43%	19.88%	22.91%	27.66%
Return on Average Assets	0.71%	0.71%	1.19%	1.16%	1.26%
Non-Interest Income to Operating Income	17.20%	16.09%	25.67%	26.63%	23.31%
Operating Expenses to Operating Income	50.06%	55.00%	50.50%	46.48%	44.58%
2. LIQUIDITY					
Net Loans to Total Deposits	98.56%	89.22%	95.91%	94.00%	92.36%
Total Customer Deposits to Total Deposits	86.36%	85.72%	88.80%	88.78%	89.17%
Net Loan to Customers Deposits	114.13%	104.08%	107.33%	105.88%	103.58%
3. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	4.23%	3.72%	4.10%	4.07%	3.83%
Non-Performing Loans to Total Loans	4.53%	4.67%	3.68%	3.11%	2.68%
Non-Performing Loans Net of Interest Reserve to Total Loans	3.81%	3.91%	1.99%	1.72%	1.41%
Net Non-Performing Loans	1.81%	2.14%	0.73%	0.32%	0.20%
Loan Loss Provisions to Total Non-Performing Loans	93.35%	79.58%	111.38%	130.93%	142.66%
4. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	12.45%	12.59%	11.88%	10.53%	9.85%
Tier 1 capital ratio	16.27%	16.40%	15.52%	13.29%	12.77%
Total Capital Adequacy Ratio	17.70%	17.86%	17.33%	15.44%	14.41%
Shareholder's Equity/ Total Assets	12.69%	12.27%	12.88%	11.10%	10.59%

Branch Network

Branch	Tel. No.	Fax No.
Muscat North Area		
Al Khoudh	Dir/ 24276000 - 24276001 - 24276002	24545268
Seeb Town	Dir/ 24425851 - 24425852 - 24424434 - 24423373	24425627
Ghala	Dir/ 24216001 - 24216002	24216006
Muscat International Airport	Dir/ 24510537 - 24510101 - 24 510102	24510468
Mabellah	Dir/ 24451520 - 24451540 - 24451539	24451542
New Muscat International Airport	Dir/ 24356999 - 24356995 - 24356997	24216600
Muscat Center Area		
Muscat Grand Mall	Dir/ 24216666	24216600
Qurum	Dir/ 24568351 - 24567671 - 24567673	24567679
New Bausher	Dir/ 24614768 - 24614786	24614764
Amarat	Dir/ 24877838 - 24876580 - 24876120	24875829
Bausher Polyclinic	Dir/ 24502606 - 24596994	24595323
Al Khuwair Ministry	Dir/ 24694710 - 24694725 - 24694715	24694730
Muscat South Area		
MBD	Dir/ 24750516 - 24790466	24798621
Muscat	Dir/ 24 737865 - 24736614 - 24736606 - 24 737066	24739166
Muttrah	Dir/ 24712970 - 24714452 - 24 714279	24713556
Quriyat	Dir/ 24845195 - 24845193 - 24845192	24845173
Ruwi	Dir/ 24831090 - 24835854	24831892
Wadi Kabir	Dir/ 24814127 - 24814126	24814128
Al-Batinah South Area		
Barka	Dir/ 26884423 - 26884428	26884451
Rustaq	Dir/ 26876039 - 26875117	26875591
Suwaiq	Dir/ 26862001 - 26862010	26862102
Muladdah	Dir/ 26868544 - 26868553	26868549
Khadhra	Dir/ 26714164 - 26714162	26714163

Branch Network

Branch	Tel. No.	Fax No.
Al-Batinah North Area		
Sohar	Dir/ 26943400 – 26943401 - 26943402	26943444
Khaboura	Dir/ 26801028 - 26801686	26805130
Saham	Dir/ 26854400 - 26856699	26855277
Hafeet	Dir/ 26817646 - 26817991 - 26817992	26817993
Falaj Al Qabail	Dir/ 26949962 - 26949812 - 26949813	26750891
Shinas	Dir/ 26748302 - 26748306 - 26748308	26748304
Al-Dakhlyah Area		
Nizwa	25410234 - 25411370	25411234
Sumail	25350543 - 25351188	25350094
Izki	25340089 - 25341016	25340204
Bahla	25420021 - 25420292	25420387
Bid Bid	25369044 - 25369033	25369055
Adam	25215001	25215050
Al-Buraimi & Dhahira Area		
Al Buraimi	Dir/ 25652224 - 25652227	25 651 115
Buraimi Industrial Area	Dir/ 25669821 – 25669822 – 25669823 - 25669824	25669825
Yanqul	25672018 - 25672031	25672041
Ibri	25689341 - 25689685	25690341
Al-Sharqyah North Area		
Ibra	Dir/ 25571632 - 25571631 - 25571632	25570646
Sinaw	Dir/ 25524663 - 25524367	25524823
Samad A'Shan	Dir/ 25526736 - 25526529	25526574
Al Muntrib	Dir/ 25583853 - 25584049	25583510
Mudhaibi	Dir/ 25578110 - 25578113	25578114

Branch Network

Branch	Tel. No.	Fax No.
Al-Sharqyah South & Wosta Area		
Sur	Dir/ 25546677- 25541255 - 25540256	25540615
J. B. B. Ali	Dir/ 25553414 - 25553440	25553446
J. B. B. Hassan	Dir/ 25551020 - 25551025	25551181
kamil Al Wafi	Dir/ 25557134 - 25557501	25557962
Al Duqum	Dir/ 25215801 - 25215800	25215888
Dhofar East Area		
Salalah	Dir/ 23290644 - 23292299 - 23294863 - 23291631	23295291
Saada	Dir/ 23227177 - 23 225463 - 23225409	23225179
Taqa	Dir/ 23258108 - 23258113	23258366
Mirbat	Dir/ 23268007 - 23268038	23268080
Dhofar University Booth	Dir/ 23237789 - 23237785 - 23237782	23237745
Dhofar West Area		
Salalah Gardens Mall	Dir/ 233818200 - 23381201	23381222
Salalah commercial District	Dir/ 23380700 - 23380719 - 23380721	23202761
Salalah-Al Gharbiah	Dir/ 23298046 - 23297526 - 23297536	23295084
Raysut	Dir/ 23219219 - 23219262 - 23219216	23219197

Branch	Tel. No.	Fax No.
Al Riadah Prestige Opera Galleria	24647070	24647007

Branch	Tel. No.	Fax No.
Corporate Centre	22520001	22520002

Maisarah Islamic Banking Services Branch Network

Branch	Tel. No.	Fax No.
Azaiba	24212544	24212521
Salalah	23211100	23211186
Sohar	26840929	26840818
Birkat Al Mouz	25443365 - 25443462	
Al Hail	24287777 - 24287788	
Greater Muttrah	24793297 - 24707959	24706103
Al Khuwair	24484880 - 24480008	24483366
Sur	25545867 - 25541912	25543710
Al Araqi	25694126 - 25695071	25695047
New Salalah	23297492 - 23296158	23294263

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II & III

Report of factual findings to the Board of Directors of Bank Dhofar 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 Bank Dhofar SAOG (the Bank) set out on pages 1 to 45 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 and 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 and 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.

PricewaterhouseCoopers.

Muscat, Sultanate of Oman
10 March 2021

PricewaterhouseCoopers LLC
C.R. No 1230865

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

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

1. Introduction:

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standards issued through circular BM 1009 on Guidelines on Basel II, Islamic Banking Regulatory Framework and BM 1114 on Regulatory Capital and Composition of Capital Disclosure Requirement under Basel III. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market.

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

a. To maintain capital adequacy ratio (CAR) at a minimum of 11% effective from 01 April 2018. Previously the minimum CAR requirement was 12%;

b. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component;

c. To maintain capital adequacy ratio (CAR) at a minimum of 13.5% (including capital conservation buffer) effective from 01 January 2019. However, amid COVID-19 situation, Capital Conservation Buffer (CCB) was lowered by 50% from 2.5% to 1.25% with effective from 18 March 2020, bringing the overall CAR requirement to 12.25%;

d. The Bank is required to maintain at all times, the following minimum capital adequacy ratios:

   o Within the overall requirement of 12.25% CAR (including capital conservation buffer), Tier 1 ratio is to be maintained at a minimum of 10.25%;

   o Within the minimum Tier 1 ratio of 10.25%, minimum CET 1 ratio is to be maintained at 8.25%; and

   o Further, within the minimum overall capital ratio of 1 1% (excluding capital conservation buffer), Tier 2 capital can be admitted up to a maximum of 2% of Risk Weighted Assets (RWA) of the Bank;

e. To adopt the Basel II standardized approach for credit risk, using national discretion for:

   o Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;

   o Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)

   o Treating all corporate exposures as unrated and assign 100% risk weight.

f. To adopt standardized approach for market risk and basic indicator approach for operational risk.

g. Capital Adequacy returns are submitted to CBO on a quarterly basis and the Bank's external auditors AUP report on capital adequacy returns on an annual basis.

As per Islamic Banking Regulatory Framework:

Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than OMR 10 million or such higher amount as may be determined from time to time by the Central Bank.

Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of RWA as Tier 1 Capital ratio. The capital buffer requirement is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

2. Scope of Application:

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Maisarah". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window (Maisarah). The disclosure pertaining to Maisarah is provided separately.

3. Basel II & III Disclosures:

3.1 Capital Adequacy Norms

The Bank has calculated its Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios in the following manner:

1. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA
2. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA
3. Total Capital Ratio = Total Capital/ Total RWA

Tier 1 Capital is the sum of CET1 Capital and Additional Tier 1 Capital (AT1) and Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

The denominator, i.e, Total risk-weighted assets (RWA) is calculated as the sum of credit risk weighted assets, market risk-weighted assets, and operational risk-weighted assets, as provided for in CBO circular BM-1009 and Islamic Banking Regulatory Framework. In the case of Islamic banks, CBO has provided an adjustment factor of alpha at 30% in the RWA in the manner stipulated under Article 2.3.1 of title 5 of IBRF relating to Capital adequacy. However, as per communication received from CBO, for the time being no adjustment is applicable in the computation of RWA.

Based on the presently prescribed level of capital adequacy, banks operating in the Sultanate will be required to maintain at all times, the following minimum capital adequacy ratios as per Basel III, due to Covid-19: With effect from 18 March 2020;

CET 1 Capital Ratio: 8.25% of risk weighted assets

Tier 1 Capital Ratio: 10.25% of risk weighted assets (Going concern capital)

Total Capital Ratio: 12.25% of risk weighted assets (Gone concern capital)

With effect from 01 January 2016, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB was to be enhanced by 0.625%, thereby reached a level of 2.5% in 2019. However, amid the situation with COVID-19, CBO reduced the CCB to 1.25%, as a measure to support banks and FLCs. Further, CBO has also finalised Countercyclical Capital Buffer, which is intended to protect the banking sector as a whole from systemic risk that is often developed during an economic upswing, when there is a tendency towards excessive aggregate credit growth. The Countercyclical Capital Buffer lies between 0% and 2.5% of the total RWA; however presently the countercyclical capital buffer is not imposed. The capital buffer requirements shall be imposed at consolidated level but will not be applied at the Islamic Banking Window level. Thus from 18 March 2020 onwards, assuming a zero countercyclical capital buffer, banks shall operate above CET1, Tier 1 and Total Capital levels of 8.25%, 10.25% and 12.25% respectively due to current Covid-19 situation. However, before Covid-19 situation banks were expected to operate above CET1, Tier 1 and Total Capital levels of 9.5%, 11.5% and 13.5% respectively.

Based on the Basel III requirement, the capital structure of the Bank (as a consolidated entity) is presented as per Annexure I. A reference is invited to paragraph 91 of the Basel III rules, which states that banks should disclose "a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements". The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. However, there is no difference between the regulatory consolidation and the accounting consolidation. The components used in the definition of capital disclosure template are provided as per Annexure IIa and the same are mapped to the composition of capital disclosure template as per Annexure IIb.

3. Basel II & III Disclosures (Continued)

3.1 Capital Adequacy Norms (Continued)

Basel II, Pillar 3 guidance note states that banks should provide qualitative disclosure that sets out "Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments." Banks are required to disclose a description of the main features of regulatory capital instruments along with the full terms and conditions of the regulatory capital instruments issued by them. Bank presently has three types of capital instruments viz., Common Shares, Perpetual bonds in the form of Additional Tier 1 Capital and Subordinated Debt. The summary disclosure for these regulatory capital instrument issued by the Bank is provided at Annexure III.

3.2. Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into two categories – Tier I and Tier II. Bank's capital structure also consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, Additional Tier I capital instruments, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis) less regulatory adjustments like cumulative losses of financial instruments classified as Fair Value through Other Comprehensive income (FVOCI), goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on FVOCI instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of total Stage 1 Expected Credit Loss (ECL) and permitted Stage 2 ECL subject to ceiling of 1.25% of credit risk weighted assets or total general provisions amount taken by Bank for Tier2 capital as on 31 December 2017. For permitted Stage 2 ECL, Bank applies two pronged approach:

1. The Stage 2 ECL amount as on 31 December 2019, is considered as "Base Year Amount" and will continue to get earlier phase out arrangement (ie 40% for 2020 and 20% for 2021).

2. The incremental ECL (Stage 2 ECL at a respective reporting date minus stage 2-ECL as at 31 December 2019) may be added back to the Tier 2 capital in the following manner:

Financial Year	Portion of Incremental Stage 2 ECL allowance considered for Tier 2 capital
2020	100%
2021	80%
2022	60%
2023	40%
2024	20%

3. Basel II & III Disclosures (Continued)
3.2. Capital Structure (Continued)

The details of capital structure are provided as under:

CAPITAL STRUCTURE:	RO'000 Amount
Paid up capital	299,635
Legal reserve	62,025
Share premium	95,656
Special reserve	17,488
Subordinated loan reserve	21,000
Retained earnings	22,189
Proposed bonus shares	-
Common Equity Tier (CET) I capital	**517,993**
Deferred Tax Assets	(5,340)
Less Goodwill	-
Cumulative unrealized losses recognized directly in equity	(5,637)
CET I Capital – Regulatory Adjustments	**(10,977)**
Total CET I capital	**507,016**
Additional Tier I Capital	**155,500**
Total Tier I Capital	**662,516**
Investment revaluation reserve (45% only)	1,151
General provision (Sum of Stage 1 and permitted Stage 2 provision subject to max of 1.25% of credit RWA)	43,264
Subordinated loans	14,000
Total Tier II capital	**58,415**
Total eligible capital (Tier I + Tier II Capital)	**720,931**

3.3 Capital Adequacy Ratio:

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

3. Basel II & III Disclosures (Continued)

3.3 Capital Adequacy Ratio: (Continued)

The Bank's capital adequacy ratio is 17.70% as against the CBO requirement of 12.25% as at 31 December 2020. The Bank's Total Capital Adequacy Ratio, without add-back of the incremental Stage 2 ECL to Tier-2 capital , is 17.56%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by the Bank.

Bank has also formed working group on capital planning which meets periodically and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Board Risk Committee (BRC). The composition of capital in terms of Common Equity Tier I, Additional Tier I, Total Tier I and Tier II are also analyzed to ensure capital stability and to reduce volatility in the capital structure.

1) Position of Risk weighted Assets is presented as under:

S. NO.	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On balance sheet items	4,409,951	4,289,823	3,095,426
2	Off balance sheet items	567,640	551,219	550,725
3	Derivatives	1,031,555	1,031,555	16,339
4	**Total Credit Risk**	**6,009,146**	**5,872,597**	**3,662,490**
5	Market Risk	-	-	**142,159**
6	Operational Risk	-	-	**267,556**
7	Total Risk Weighted Assets	-	-	**4,072,205**

* Net of provisions and, reserve interest

3. Basel II & III Disclosures (Continued)
3.3 Capital Adequacy Ratio: (Continued)

2) Detail of Capital Adequacy:

S. NO.	Details	RO'000
1	Common Equity Capital	507,016
1	Tier 1 Capital	662,516
2	Tier 2 Capital	58,415
3	Tier 3 Capital	-
4	**Total eligible capital**	**720,931**
5	Capital Requirement for Credit Risk	3,662,490
6	Capital Requirement for Market Risk	142,159
7	Capital Requirement for Operational Risk	267,556
8	**Total Required Capital**	**4,072,205**
9	Common Equity Capital Ratio	12.45%
10	Tier 1 Capital Ratio	16.27%
	Total Capital Adequacy Ratio	17.70%

3.4 Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/ or measurement systems and risk mitigation strategies.

3.4.1 Credit Risk:

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent bench marks, limits for management of credit risks. Continuous review of the credit risk policy is done to adapt to the business environment and regulatory requirements at all times.

The Board of Directors delegate credit approval powers for Wholesale Banking and Retail Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the Corporate, Business Banking and Project Finance credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category); reviews are conducted at higher frequency.

The Bank has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of the Bank's networth as stipulated by CBO and where a higher limit is required for projects of national importance, prior approval of CBO is obtained. The credit control department also undertakes monitoring of the retail loans.

Retail lending is in accordance with the CBO guidelines. The Bank uses a score card as a selection tool for the personal loans in conventional banking. Bank has also implemented Loan Origination System (LOS) which has automated the workflow of retail loan credit proposals in conventional banking. In Maisarah, retail financing is mainly in auto and housing finance category.

In addition to these, the Bank also undertakes business with international and local banks. The maximum exposures to international banks are defined through internally developed model and the total exposure to such counterparty banks is linked to the net worth of the Bank and regulatory ceiling. The maximum exposures to local banks is capped at 14% of the Bank's networth . The Bank has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis. In addition to the internal limits, the Bank also adheres to the limits for countries and counterparty banks prescribed by CBO strictly.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention has also been applied to Maisarah financing.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1 January 2018.

Credit Risk exposure of the Consolidated entity (i.e. both Conventional banking & Maisarah)

1) **Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:**

S. NO.	Type of Credit Exposure	Average Gross exposure		Total Gross exposures	
		RO'000	RO'000	RO'000	RO'000
	Conventional	**2020**	2019	**2020**	2019
1	Overdrafts	**131,749**	158,227	**123,762**	137,827
2	Loans	**2,592,904**	2,448,399	**2,670,470**	2,425,730
3	Loans against trust receipts	**89,101**	101,088	**83,750**	109,865
4	Other	**35,798**	49,146	**34,227**	36,564
5	Bills purchased /discounted	**5,382**	10,747	**4,862**	10,334
6	Advance against credit cards	**8,784**	9,207	**8,521**	9,450
	Total	**2,863,718**	2,776,814	**2,925,592**	2,729,770
	Islamic				
7	Murabaha Receivables	**28,525**	22,100	**13,331**	19,686
8	Mudaraba Financing	**15,575**	21,955	**24,024**	18,897
9	Ijarah Assets	**46,367**	45,812	**46,410**	46,028
10	Wakala Financing	**47,965**	30,961	**52,019**	40,011
11	Diminishing Musharaka Financing	**337,992**	303,040	**348,399**	327,205
12	Total Islamic	**476,424**	423,868	**484,183**	451,827
	TOTAL	**3,340,142**	3,200,682	**3,409,775**	3,181,597

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.1 Credit Risk (Continued)

2) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

S. NO.	Type of Credit Exposure	Oman RO'000	Other GCC Countries RO'000	*OECD Countries RO'000	India RO'000	Pakistan RO'000	Other RO'000	Total RO'000
		1	2	3	4	5	6	7
1	Overdrafts	123,762	-	-	-	-	-	123,762
2	Personal Loans	1,259,193	-	-	-	-	-	1,259,193
3	Loans against trust Receipts	83,750	-	-	-	-	-	83,750
4	Other Loans	1,411,277	-	-	-	-	-	1,411,277
5	Bills Purchased / negotiated	4,752	-	-	-	-	110	4,862
6	Advance against credit cards	8,521	-	-	-	-	-	8,521
7	Any other	34,227	-	-	-	-	-	34,227
	Total	**2,925,482**	**-**	**-**	**-**	**-**	**110**	**2,925,592**
	Islamic							
8	Murabaha Receivables	13,331	-	-	-	-	-	13,331
9	Mudaraba Financing	24,024	-	-	-	-	-	24,024
10	Ijarah Assets	46,410	-	-	-	-	-	46,410
11	Wakala Financing	52,019	-	-	-	-	-	52,019
12	Diminishing Musharaka Financing	348,399	-	-	-	-	-	348,399
13	Total Islamic	484,183	-	-	-	-	-	484,183
	Total	**3,409,665**	**-**	**-**	**-**	**-**	**110**	**3,409,775**

Overdrafts and others includes in Personal loans and others

*excluding countries included in column 2

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

3) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

S. NO.	Economic Sector	Overdraft RO'000	Loans & Financing RO'000	Bills purchased RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
1	Import trade	9,466	89,563	-	8,142	107,171	35,723
2	Export trade	219	7,606	-	7	7,832	5,349
3	Wholesale/retail trade	3,976	30,585	-	2,528	37,089	22,224
4	Mining and quarrying	1,528	29,600	-	9	31,137	671
5	Construction	49,818	393,608	3,169	58,777	505,372	263,486
6	Manufacturing	17,804	111,072	1,302	37,488	167,666	42,754
7	Electricity, gas and water	1,104	194,872	-	419	196,395	25,646
8	Transport and Communication	983	2,070	-	314	3,367	5,922
9	Financial institutions	1,668	184,070	281	-	186,019	217,021
10	Services	17,305	210,153	-	2,786	230,244	33,901
11	Personal loans	1,767	1,249,166	-	8,260	1,259,193	173
12	Agriculture and allied Activities	3,888	8,848	-	2,620	15,356	1,079
13	Government	-	403,891	-	7	403,898	329
14	Non-resident lending	-	-	110	-	110	-
15	Others	14,236	239,549	-	5,141	258,926	7,213
	Total (1 to 15)	**123,762**	**3,154,653**	**4,862**	**126,498**	**3,409,775**	**661,491**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

4) **Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:**

S. NO.	Time Band	Overdraft RO'000	Loans & Financing RO'000	Bills purchased/ Discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exp. RO'000
1	Upto 1 month	6,188	27,454	-	1,409	**35,051**	3,809
2	1 - 3 months	6,188	100,256	110	1,887	**108,441**	37,905
3	3 - 6 months	6,188	83,583	256	5,767	**95,794**	38,148
4	6 - 9 months	6,188	38,382	-	9,306	**53,876**	15,855
5	9 - 12 months	6,188	9,353	-	8,708	**24,249**	16,862
6	1 - 3 years	30,941	257,682	475	10,799	**299,897**	107,953
7	3 – 5 years	30,941	140,818	2,719	11,114	**185,592**	140,132
8	Over 5 years	30,940	2,497,125	1,302	77,508	**2,606,875**	300,827
	Total (1 to 15)	**123,762**	**3,154,653**	**4,862**	**126,498**	**3,409,775**	**661,491**

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

5) **Analysis of loan & financing book by major industry or counterparty type:**

S. NO.	Economic Sector	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Stage 3 Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
1	Import trade	104,339	2,832	2,075	693	544	107	523
2	Export trade	7,825	7	86	3	3	-	-
3	Wholesale/ retail trade	28,146	8,943	325	3,601	1,033	(113)	-
4	Mining and quarrying	31,123	14	255	7	9	1	-
5	Construction	475,177	30,195	10,906	12,061	3,801	4,585	-
6	Manufacturing	166,871	795	1,764	315	207	98	-
7	Electricity, gas and water	196,395	-	848	-	-	-	-
8	Transport and communication	2,650	717	53	321	143	56	-
9	Financial institutions	186,019	-	726	-	-	-	-
10	Services	228,641	1,603	7,605	623	429	289	193
11	Personal loans	1,193,047	66,146	10,991	32,323	12,782	15,221	3,980
12	Agriculture and allied activities	15,346	10	87	5	5	-	-
13	Government	403,898	-	1,362	-	-	-	-
14	Non-resident lending	110	-	-	-	-	-	-
15	Others	215,621	43,305	14,257	18,276	5,763	5,266	612
	TOTAL (1 to 15)	**3,255,208**	**154,567**	**51,340**	**68,228**	**24,719**	**25,510**	**5,308**

* Represents only on balance sheet NPLs.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.1 Credit Risk (Continued)

6) Geographical distribution of amount of impaired loans:

S. NO.	Economic Sector	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Stage 3 Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
1	Oman	**3,255,098**	**154,567**	**51,340**	**68,228**	**24,719**	**25,510**	**5,308**
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	**110**	-	-	-	-	-	-
7	**TOTAL**	**3,255,208**	**154,567**	**51,340**	**68,228**	**24,719**	**25,510**	**5,308**

*excluding countries included in row 2

7) Movement of Gross Loans/Financing:

		Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	2,211,386	821,629	148,582	3,181,597
2	Migration/changes (+/-)	176,112	(189,119)	13,007	-
3	New Loans	384,469	60,982	9,552	455,003
4	Recovery from Loans	179,237	31,014	16,535	226,786
5	Loans written off	-	-	39	39
6	**Closing Balance**	**2,592,730**	**662,478**	**154,567**	**3,409,775**
7	Total Provisions	17,626	33,714	68,228	119,568

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

1) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. Similar convention has been applied for Maisarah as well.

2) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 136.549 million All other credit exposures of Corporate and Retail are assigned 100% risk weight (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight and 75% for SME borrowers).

Quantitative Disclosure

The total exposure after risk mitigation subject to Standardized Approach as at 31 December 2020 is as follows:

Sl. No.	Risk bucket	0% RO' 000	1% RO' 000	5% RO' 000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	300% RO' 000	Total RO' 000
1	Sovereigns (Rated)	709,327	-	-	-	-	-	-	-	-	-	709,327
2	Banks (Rated)	-	-	-	43,802	-	52,614	-	25,556	4	-	121,976
3	Corporate	117,447	-	-	-	-	-	-	1,781,205	-	13,171	1,911,823
4	SME	-	-	-	-	-	-	72,576	-	-	160	72,736
5	Retail	2,681	-	-	-	-	-	-	632,873	-	-	635,554
6	Claims secured by residential property	-	-	-	-	522,166	-	-	35,299	-	-	557,465
7	Past due loans	-	-	-	-	-	-	-	154,567	-	-	154,567
8	Other assets	-	-	-	-	-	-	-	128,537	-	-	128,537
9	Un-drawn exposure	-	-	-	-	1,059	-	783	264,535	-	623	267,000
10	Derivative	-	938,762	90,360	-	-	-	-	2,433	-	-	1,031,555
11	Non funded-Bank	-	-	-	-	-	-	-	77,929	-	-	77,929
12	Non funded-Customers	16,421	-	-	3,071	-	170,595	873	149,564	-	-	340,524
13	Non funded-Sovereign	153	-	-	-	-	-	-	-	-	-	153
	Total	**846,029**	**938,762**	**90,360**	**46,873**	**523,225**	**223,209**	**74,232**	**3,252,498**	**4**	**13,954**	**6,009,146**

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach: (Continued)

3) The Bank also conducts stress tests on portfolio basis at regular intervals to assess the impact of movement in the staging on its profitability and capital adequacy. The same is placed before the Board Risk Committee.

3.4.3 Credit Risk Mitigation (CRM): Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The rating grade indicates the default probability of the borrower's obligation. The Bank has also implemented the facility rating system based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) for conventional banking, which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. The RAROC system provides a competitive edge to the Bank in improving the quality of the portfolio and also covers the cost of doing business in the form of pricing.

The Bank has strengthened its existing credit risk management systems and is committed to improve it further.

3.4.4 Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the possibility that a customer or trading counterparty will fail to fulfill contractual obligations, and such failure may result in the termination or replacement of the transaction at a loss to the Bank. Such exposures arise primarily in relation to over-the-counter (OTC) derivatives. The majority of CCR exposure is incurred in transactions designed to help our clients manage their interest rate and currency risks.

To measure RWA, Bank Dhofar uses the Current Exposure Method (CEM), which is the sum of current credit exposure (CCE) and the potential future exposure (PFE). The CCE is the sum of net positive fair values and the PFE is an estimate of the maximum amount of the exposure that could occur over a one year horizon. Bank Dhofar has a total notional amount of RO 185.385 Mn in OTC derivatives (such as currency option, interest rate swap and forward interest rate agreement) and risk weighted assets of RO 2.433 Mn as at 31 Dec 2020.

3.4.5 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates, profit rates or prices of securities, foreign exchange and equities. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.5 Market Risk: (Continued)

Bank has a comprehensive Asset Liability Management (ALM) Policy for conventional entity and Islamic banking and Investment Management Policy for conventional banking which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per Standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

1) Interest Rate Risk (IRR) for conventional banking:

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's networth.

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on the Bank's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate risk thereon is monitored by ALCO on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Risk Management Committee of the Board with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate in conventional banking is provided as under:

(RO in 000's)

Position as at 31.12.2020 Impact on	+ or – 1%	+ or – 2%
Earnings	12,656	25,311
Economic Value of Equity	40,801	81,602
Impact on earning as a % of NII	12.7%	25.4%
Impact as a % of Bank's Net worth	6%	11%

2) Profit Rate Risk (PRR):

Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & Investment Account Holder (IAH). The profit distribution to IAH is based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Maisarah result does not allow it to distribute profits in line with the market rates.

Maisarah has a Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.5 Market Risk: (Continued)

3) Foreign Exchange Risk:

Foreign Exchange Risk maybe defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on capital adequacy and the same is placed to Board Risk Committee of Board of Directors on regular basis.

4) Commodity Risk

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

5) Equity Position Risk:

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities in conventional banking and does not hold any position in equities in Maisarah. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method in conventional banking for the domestic quoted equity portfolio. Out of total quoted equity portfolio of OMR 2.70 million as on 31.12.2020, VaR works out to OMR 295K at 99% confidence level and 10.9% of the domestic quoted equity portfolio.

6) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The capital charge for various components of market risk is presented below:

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment: (Continued)
3.4.5 Market Risk: (Continued)

Type of risk	+ or – 1%
Interest Rate Risk	-
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	11,373
TOTAL	**11,373**

3.4.6 Liquidity Risk

Liquidity risk is the potential inability to meet the liabilities as they become due. It arises when the banks are unable to generate cash to cope with a decline in deposits or increase in assets.

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

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

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provides the liquidity gap positions to Treasury Department to manage it.

Middle office also undertakes regular stress test that provides the requirement of liquidity over a given time horizon.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 32 of the notes to financial statements).

3.4.7 Operational Risk:

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment: (Continued)

3.4.7 Operational Risk: (Continued)

Bank has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks. Bank has also formulated a framework for reporting red flags to the Management and to the Board.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

Bank uses various operational risk tools like loss data management (LDM), Key Risk Indicators (KRI), Risk Control and Self-Assessment (RCSA) for effective operational risk management. The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to improve control effectiveness. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

4. Liquidity Standards:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

4.1 Liquidity Coverage Ratio (LCR):

This ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The ratio is calculated as follows:

LCR = Stock of High Quality Liquid Assets / Total Net Cash Outflows over the next 30 calendar days

As per guidelines, the value of the LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. However, in view of current COVID-19 situation, CBO has temporarily allowed the minimum LCR ratio of 75% for Bank's Islamic window upto 31 December 2020, while minimum LCR ratio of 100% is expected to be maintained at all times by the Consolidated entity. The Bank is meeting the regulatory limit of LCR as at 31st December 2020 on consolidated basis.

4. Liquidity Standards: (Continued)

4.2 Net Stable Funding Ratio (NSFR):

The net stable funding ratio is designed to ensure that banks rely more on long term funding and they maintain a sound funding structure over a horizon of one year to withstand Bank specific stress events. The ratio aims to reduce over-reliance on short term funding to create long term assets, especially during times of volatile liquidity conditions. The ratio is calculated as follows

Net Stable Funding Ratio = Available Stable Funding (ASF) / Required Stable

Funding (RSF) *100

In terms of CBO guidelines, the standard for NSFR has become effective from 1st January 2018, with a minimum ratio of 100%. However, in view of COVID-19 situation , CBO has temporarily allowed minimum NSFR ratio of 75% for Islamic window till 31.12.2020, while the consolidated entity is expected to maintain minimum NSFR ratio of 100% at all times. Presently, the Bank is meeting the regulatory limit of NSFR as at 31st December 2020.

5. Basel III Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The leverage ratio standard is not applicable to Islamic Banking Window. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the consolidated entity is as follows:

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	As at 31st December 2020	As at 31st December 2019
1	Total consolidated assets as per published financial statements	**4,257,023**	4,325,845
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments	**18,942**	13,701
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)		
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**346,932**	423,124
7	Other adjustments		
8	Leverage ratio exposure	**4,622,897**	4,762,670

5. Basel III Leverage Ratio: (Continued)

Table 2: Leverage ratio common disclosure template			
(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)			
	Item	**As at 31st December 2020**	**As at 31st December 2019**
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,257,023**	4,325,845
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**4,257,023**	4,325,845
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)		
5	Add-on amounts for PFE associated with all derivatives transactions	**18,942**	13,701
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-
8	(Exempted CCP leg of client-cleared trade exposures)	**-**	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**18,942**	13,701
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**-**	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
14	CCR exposure for SFT assets	**-**	-
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**661,491**	810,930
18	(Adjustments for conversion to credit equivalent amounts)	**(314,559)**	(387,806)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**346,932**	423,124
	Capital and total exposures		
20	**Tier 1 capital**	**662,516**	668,489
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,622,897**	4,762,670
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**14.3**	14.0

With reference to CBO BSD/CB/2020/005 the Bank 's leverage ratio (%) without add-back of the incremental Stage 2 ECL is remained same at 14.3%.

Basel III Capital Disclosure Template

31st/12/2020

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	395,291.00	
2	Retained Earnings	22,189.00	
3	Accumulated other comprehensive income (and other reserves)	100,513.00	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public Sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	
6	**Common Equity Tier 1 Capital before regulatory adjustments**	517,993.00	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	5,637.00	
8	Goodwill (net of related tax liability)*	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	5,340.00	
11	Cash Flow hedge reserve	-	
12	Shortfall of provisions to expected loss	-	
13	Securitization gain on sale (as set out in para 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 10% of 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)	-	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
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	-	
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
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**	10,977.00	
29	**Common Equity Tier 1 capital (CET 1)**	507,016.00	
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	155,500.00	
31	of which: classified as equity under applicable accounting standards	155,500.00	
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 CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 capital before regulatory adjustments**	155,500.00	
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
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, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1**	-	
44	**Additional Tier 1 capital (CET 1)**	155,500.00	
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	662,516.00	
Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	14,000.00	
47	Directly issued capital instruments subject to phase out from Tier 2		
48	Tier 2 instruments (and CET 1 and AT 1 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 and Cumulative fair value gains on available for sale instruments	44,415.00	
51	**Tier 2 capital before regulatory adjustments**	58,415.00	
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross holdings in Tier 2 instruments	-	

Basel III Capital Disclosure Template (Continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '000)	
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 10% threshold)	-	
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
57	**Total Regulatory Adjustments to Tier 2 capital**	-	
58	**Tier 2 Capital (T 2)**	58,415.00	
59	**Total Capital (TC = T 1 + T 2)**	720,931.00	
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment		
	of which: (insert name of adjustment)		
	of which: (insert name of adjustment)		
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	4,072,205.00	
60a	of which: Credit Risk Weighted Assets	3,662,490.00	
60b	of which: Market Risk Weighted Assets	142,159.00	
60c	of which: Operational Risk Weighted Assets	267,556.00	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.45%	
62	Tier 1 (as a percentage of risk weighted assets)	16.27%	
63	Total capital (as a percentage of risk weighted assets)	17.70%	
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	
65	of which: capital conservation buffer requirement	1.25%	

Basel III Capital Disclosure Template (Continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.20%	
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	
71	National total capital minimum ratio (if different from Basel III minimum)	NA	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
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)	-	
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)	44,415.00	
77	Cap on inclusion of provisions in Tier 2 under standardized approach	45,781.00	
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 CET 1 instruments subject to phase out arrangements	NA	
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	
84	Current cap on T 2 instruments subject to phase out arrangements	NA	
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	

CA Report 1 (For CBO Use only)

	CA Report 1 (For CBO Use only)	RO ' 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	517,993
2	Regulatory Adjustments to CET1	10,977
3	CET1	507,016
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	155,500
5	Regulatory Adjustments to AT1	-
6	AT1	155,500
7	Tier 1 Capital (7=3+6)	662,516
8	Tier 2 Capital before Regulatory Adjustments	58,415
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	58,415
11	Total Capital (11=7+10)	720,931
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	4,072,205
13	Credit Risk Weighted Assets	3,662,490
14	Market Risk Weighted Assets	142,159
15	Operational Risk Weighted Assets	267,556
16	CET1 (as a percentage of TRWA) (in %) 8.25%	12.45%
17	Tier 1 (as a percentage of TRWA) (in %) 10.25%	16.27%
18	Total capital (as a percentage of TRWA) (in %) 12.25%	17.70%

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

Consolidated Conventional and Maisarah Islamic Banking

	Bank Dhofar SAOG Details	**31st December-2020 Amount RO ' 000**
1	Common Equity Tier 1 capital (CET 1)	507,016
2	Tier I Capital (after supervisory deductions)	662,516
3	Tier II capital (after supervisory deductions & upto eligible limits)	58,415
4	Tier III Capital (upto a limit where Tier II & Tier III does not exceed Tier I)	
5	Of which, Total Eligible Tier III Capital	-
6	**Risk Weighted Assets – Banking Book**	3,662,490
7	**Risk Weighted Assets – Operational Risk**	**267,556**
8	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**3,930,046**
9	Minimum required capital to support RWAs of banking book & operational risk	**432,305**
	1) Minimum required Tier I Capital for banking book & operational risk	373,890
	2) Tier II Capital required for banking book & operational risk	58,415
10	Tier I capital available for supporting Trading Book	288,626
11	Tier II capital available for supporting Trading Book	-
12	**Risk Weighted Assets – Trading Book**	**142,159**
13	Total capital required to support Trading Book	15,637
14	Minimum Tier I capital required for supporting Trading Book	4,457
15	Used Eligible Tier III Capital	-
16	Total Regulatory Capital	720,931
17	Total Risk Weighted Assets – Whole bank	4,072,205
18	Common Equity Tier 1 Ratio	**12.45%**
19	Tier 1 Ratio	**16.27%**
20	Total Capital Adequacy Ratio	**17.70%**
21	Unused but eligible Tier III Capital	
22	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	**4.20%**

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

Capital Adequacy Disclosure

		RO ' 000							Exposure with CRM			RO ' 000
Details		Drawn Exposure	Undrawn Exposure	Repo Style	OTC Derivative	Other OBS	Total Exposure	Unsecured	Pre mitigation	Post mitigation	Net Exposure	RWAs - Standardized Approach
I. Banking Book												
1) Soverign	carrying 0%	709,327				153	709,480				709,480	-
	carrying 20%											-
	carrying 50%											
	carrying 100%											
	carrying 150%											
	Unrated 100%											
2) MDBs	Carrying 0%											
3) Banks	carrying 0%											
Placement	carrying 20%	43,802					43,802				43,802	8,760
	carrying 50%	52,614					52,614				52,614	26,307
	carrying 100%	25,556				77,929	103,485				103,485	103,485
	carrying 150%	4					4				4	6
	Unrated 50%											
4) Corporate	carrying 0%	117,447				16,421	133,868			133,868	133,868	-
	carrying 20%					3,071	3,071	3,071			3,071	3,071
	carrying 50%					170,595	170,595	170,595			170,595	170,595
	carrying 75%		491			873	1,364	1,364			1,364	1,023
SME	carrying 75%	72,576	292				72,868	72,868			72,868	54,651
	carrying 100%		148,543			149,564	298,107	298,107			298,107	298,107
	Unrated 100%	1,781,205	58,490				1,839,695	1,839,695			1,839,695	1,839,695
(Mudaraba) SME	carrying 300%	160					160	160			160	480
(Mudaraba)	carrying 300%	13,171	623				13,794				13,794	41,382
5) Retail	carrying 0%	2,681					2,681			2,681	2,681	-
	carrying 20%											
	carrying 50%											
	carrying 75%											
	carrying 100%	632,873	57,376				690,249				690,249	690,249
6) Claims secured by residential property												
	carrying 0%											
	carrying 20%											
	carrying 35%	522,166	1,059				523,225				523,225	182,758
	carrying 100%	35,299	126				35,425				35,425	35,425
7) Claims secured by commercial property												
	carrying 0%											
	carrying 20%											
	carrying 100%											
8) Past Due Loans												
	carrying 0%											
	carrying 20%											
	carrying 150%											
	carrying 100%	154,567					154,567		(92,947)	61,620	61,620	61,620
net prov for past due loans	carrying 150%											
9) Other Assets												
	carrying 0%											
	carrying 20%											
other assets/ investment/ fixed assets	carrying 100%	128,537					128,537				128,537	128,537
	carrying 150%											
10) High Risk Assets												
Securitization tranches rated between BB+ and BB- - 350%												
Venture Capital & Private Equity Investments - 150%												
11) Off-balance Sheet Items												
Forward Bank and Customer	carrying 0%											
Less than 1 Year	carrying 1%				938,762		938,762				938,762	9,388
Above 1 Year	carrying 5%				90,360		90,360				90,360	4,518
	carrying 7.5%											
	carrying 100%				2,433		2,433				2,433	2,433
12) Failed transactions (para 88)												
	From 5 to 15 days after the agreed settlement date (100% RWA)											
	From 16 to 30 days after the agreed settlement date (625% RWA)											
	From 31 to 45 days after the agreed settlement date (937.5% RWA)											
	46 days or more after the agreed settlement date (1250% RWA)											
Total Banking Book		**4,291,985**	**267,000**	**-**	**1,031,555**	**418,606**	**6,009,146**	**2,385,860**	**(92,947)**	**198,169**	**5,916,199**	**3,662,490**

Capital Adequacy Disclosure

	Capital Elements of Capital	31st December-2020 Amount in RO ' 000
	Common Equity Tier 1 Capital: Instruments and reserves	
	Local Banks	
1	Paid - up Capital	299,635
2	Share Premium	95,656
3	Legal reserves	62,025
4	General Reserves (Special Reserve)	17,488
5	Sub-ordinated Loan Reserve	21,000
6	Stock Dividend	-
7	Retained Earnings	22,189
8	Non -cumulative perpetual preferred stock	
9	Other non-distributable Reserve	
	Foreign Banks	
10	Assigned Capital	
11	Capital Deposit	
12	Retained Earnings	
13	Interest free funds from HO	
	Common Equity Tier 1 Capital before regulatory adjustments	517,993
	Common Equity Tier 1 Capital : Regulatory Adjustments	
	Deductions	
14	Goodwill	-
15	Deferred Tax Asset	(5,340)
*16	Intangible Assets, including losses, cumulative	(709)
	unrealized losses recognized directly in equity	(4,928)
17	Reciprocal crossholding of bank capital, artificially	-
	designed to inflate the capital position of the banks	
	Total regulatory adjustments to common equity Tier 1	**(10,977)**

Capital Adequacy Disclosure (Continued)

	Capital Elements of Capital	31st December-2020 Amount in RO ' 000
18	Tier I capital after the above deductions	
19	50% of investments in capital of banks and other financial entities, other than reciprocal cross holding of bank capital	
20	50% of Significant minority and majority 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	
21	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	
22	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	
	sub-total	-
23	**Common Equity Tier 1 capital (CET 1)**	**507,016**
	Pepercual Capital Tier 1 Capital	155,500
	Total Tier 1 Capital (T1=CET1+AT1)	**662,516**
	Tier II Capital: Instruments and Provisions	
	Directly issued qualifying Tier 2 instruments plus related stock surplus	
	Directly issued capital instruments subject to phase out from Tier 2	
24	Undisclosed reserves	
25	Revaluation Reserves / Cumulative fair value gains or losses on available for sale instruments	1,151
26	General Loan Loss Provisions / General Loan Loss Reserve	43,264
27	Sub-ordinated Debt	14,000
28	Hybrid Debt Capital Instruments	
29	**Total Tier II Capital before Regulatory adjustment**	**58,415**
	Tier II capital Regulatory Adjustments	
30	Tier III Capital	
31	**Total Regulatory Capital**	**720,931**

Risk Weighted Assets – Trading Book

	Details – Risk Weighted Assets – Trading Book	31st December-2019 Amount in RO ' 000
1	Capital Charge on Specific Risk	-
	1) On interest rate related instruments	-
	2) On Equities	-
2	Capital charge on general market risk	-
	1) On interest rate related instruments	-
	2) On Equity	-
	3) On foreign exchange & Gold position	11,373
	4) On Commodities position	-
3	Total Capital Charge for market risks	**11,373**
4	Total Risk Weighted Assets – Trading Book	**142,159**

Risk Weighted Assets – Operational Risk

	Details – Risk Weighted Assets – Operational Risk	Amount
1	Capital Charge for Operational Risk under Basic Indicator Approach	21,431
2	Total Risk Weighted Assets - Operational Risk	267,556

Bank Dhofar S.A.O.G
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2020

Statement IIa

The components used in the definition of capital disclosure template are provided below:

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Assets			
Cash & Balances with CBO	208,836.00		
Balances with bank and money at call and short notice	121,522.00		
Investments:	457,817.00		
Of which Held to Maturity			
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Available for Sale			
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Held for Trading			
Loans & Advances - Conventional	2,790,468.00		
Loans & Advances to domestic banks			
Loans & Advances to Non Resident Banks - Net			
Loans & Advances to domestic customers			
Loans & Advances to Non Resident Customers for domestic operations			
Loans & Advances to Non Resident Customers for operations abroad			
Loans & Advances to SMEs			
Financing from Islamic Banking Window	475,020.00		

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

Statement IIa (Continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Fixed Assets	21,445.00		
Other Asset	181,915.00		
Of which,			
Goodwill & Intangible Assets	-		a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	4,257,023.00		
Capital & Liabilities			
Paid up capital	455,135.00		
of which:			
Amount eligible for CET 1	299,635.00		h
Amount eligible for AT1	155,500.00		i
Reserves & Surplus	240,729.00		j
Share Premium	95,656.00		k
Legal Reserve & Special Reserve	79,513.00		l
Special reserve – restructured loans	1,281.00		
Subordinated loan reserve	21,000.00		m

Statement IIa (Continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period End	
Special reserve Impairment Ifrs9	12,184.00		
Special revaluation reserve investment Ifrs9	(709.00)		
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(2,370.00)	(5,637.00)	n
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	34,174.00	22,189.00	o
Total Capital			
Deposits			
Of which,			
Deposit from Banks	451,955.00		
Customer Deposits	2,488,053.00		
Deposit of Islamic Banking Window	373,262.00		
Other deposits (pl specify)			
Borrowings			
Of which,			
From CBO			
From Banks			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Plz specify) (Subordinated Loans)	35,000.00	14,000.00	
Other liabilities & provisions	212,889.00		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	4,257,023.00		

Statement IIB

The components mentioned in above table are mapped to the composition of capital disclosure template, which is provided below:

Table 2c: Common Equity Tier 1 capital: instruments and reserves			
		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	299,635.00	h
2	Retained earnings	22,189.00	
3	Accumulated other comprehensive income (and other reserves)	196,169.00	k,l,m,o
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	517,993.00	
7	Prudential valuation adjustments	5,637.00	n
8	Goodwill (net of related tax liability)	-	a
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	5,340.00	

Annexure III

Main features template for capital instruments

Bank has three types of capital instruments viz., Common Equity Shares, Additional Tier 1 Perpetual bonds and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

Disclosure for Main Features of regulatory capital instruments – Common Shares		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000002549
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Common Equity Tier I
5	Post-transitional Basel III rules	Common Equity Tier I
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	299.635
9	Par Value of Instrument	0.1
10	Accounting Classification	Shareholder's equity
11	Original date of issuance	Common shares have been announced many times. The change in position of common shares during the year has been provided in point 18 of notes to accounts.
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	Not applicable
16	Subsequent call dates, if applicable	Not applicable

Annexure III (Continued)

Disclosure for Main Features of regulatory capital instruments – Common Shares		
Coupons / Dividends		
17	Fixed or floating dividend coupon	No coupon
18	Coupon rate & any related index	Not applicable
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Non viability
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully subordinated (Subordinated debt are senior to ordinary shares)
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

Subordinated Loan 1

Disclosure for Main Features of regulatory capital instruments – Subordinated debt		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	Not applicable
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Tier II
5	Post-transitional Basel III rules	Tier II
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Loan
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	RO 35 Mn
9	Par Value of Instrument	RO 35 Mn
10	Accounting Classification	Subordinated Loan
11	Original date of issuance	15-May-17
12	Perpetual or dated	Dated
13	Original Maturity date	15-Nov-22
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	6.25% p.a.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No

Subordinated Loan 1 (Continued)

Disclosure for Main Features of regulatory capital instruments – Subordinated debt		
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Trigger even means earlier of: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank is of the opinion that a write-off of the Facility is necessary without which the Borrower shall become non-viable; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the borrower would have become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All the depositors & General Creditors
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features (20.4 (2) of CP1 of CBO guidelines)	Not applicable

Subordinated Loan 2

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	XS1233710380
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the English law. Subordination of the Capital Securities will be governed by the laws of Oman.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	USD 300 Mn
9	Par Value of Instrument	USD 300 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-May-15
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on any interest payment date thereafter subject to the prior consent of the regulatory authority. The Instrument has completed 5 year term in May 2020.
16	Subsequent call dates, if applicable	Any interest payment date means each 27 May and 27 November in each year.

Subordinated Loan 2 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating
18	Coupon rate & any related index	The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. As specified in the terms and conditions of Tier 1 USD Securities, the interest for the five-year reset period from the First Call Date starting from 27 May 2020 is the aggregate of the initial margin of 5.128 per cent. per annum and the relevant 5-year reset rate (the mid-swap rate for U.S. Dollar swap transactions with a maturity of 5 years). The interest for the five-year reset period is at fixed annual rate of 5.519% from the First Call Date. Interest will be payable semi – annually in arrears and treated as deduction from equity
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable

Subordinated Loan 2 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
30	Write down features	Yes
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full or partial
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 3

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000007548
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the Oman law.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	OMR 40 Mn
9	Par Value of Instrument	OMR 40 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-Dec-18
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 27 Dec 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority and after giving suitable notice
16	Subsequent call dates, if applicable	Any interest payment date occurring after 27 Dec 2023, means each 27 June and 27 December thereafter, at the option of the Bank.

Subordinated Loan 3 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating
18	Coupon rate & any related index	The Bonds shall bear interest from (and including) the Issue Date to (but excluding) the First Call Date at a rate of 7.5% per annum (Initial Interest Rate) on the outstanding principal amount of the Bonds. The Bonds shall bear interest from each Reset Date to the next Reset Date at the then Relevant 5 Year Reset Rate. Reset date is the First Call Date and every fifth anniversary thereafter.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertibel into	Not applicable
29	If convertibe, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes

Subordinated Loan 3 (Continued)

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full or partial
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS

Liquidity Coverage Ratio:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio (LCR) to the Central Bank of Oman (CBO). The LCR is defined as the proportion of high quality liquid assets to total net cash outflows over the next 30 days. The high quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Development Bonds; Sovereign Treasury Bills; and investment in equity listed on Muscat Securities Market. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

As per CBO guidelines, the LCR is to be maintained at a minimum of 100% from 01.01.2019. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of LCR as at 31 December 2020 as a Consolidated entity.

The disclosure for Liquidity Coverage Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

Bank Dhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

For the year ended 31 December 2020

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

Sl. No.	BankDhofar Consolidated LCR Disclosure for the Quarter ending: Dec 2020	Total Unweighted Value (average) RO '000	Total Weighted Value (average) RO '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		442,616.61
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	638,817.06	45,798.14
3	Stable deposits	347,175.32	16,633.97
4	Less stable deposits	291,641.74	29,164.17
5	Unsecured wholesale funding, of which:	694,131.06	321,710.60
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	694,131.06	321,710.60
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	382,365.83	23,969.25
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	382,365.83	23,969.25
14	Other contractual funding obligations	35,608.99	35,608.99
15	Other contingent funding obligations	296,580.78	14,829.04
16	**TOTAL CASH OUTFLOWS**		**441,916.02**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	459,550.51	188,098.30
19	Other cash inflows	33,354.25	33,354.25
20	**TOTAL CASH INFLOWS**	**492,904.76**	**221,452.56**
			Total Adjusted Value
21	**TOTAL HQLA**		**444,160.54**
22	**TOTAL NET CASH OUTFLOWS**		**220,463.46**
23	**LIQUIDITY COVERAGE RATIO (%)**		**201.47**

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the values for the 12 months.

LCR is computed on a monthly basis and year end position for LCR is 416.90% as at 31 December 2020 (340% as at 31 December 2019) for the Consolidated entity.

Net Stability Funding Ratio (NSFR):

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

The disclosure for Net Stability Funding Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
1	Capital:	1 ,830,988.84	1 ,830,988.84	-	-	1 ,830,988.84
2	Regulatory capital	887,526.33				887,526.33
3	Other capital instruments	943,462.51				943,462.51
4	Retail deposits and deposits from small business customers	635,924.86	55,077.73	59,090.11	-	750,092.70
5	Stable deposits	322,003.57	1,948.64	2,663.38		326,615.58
6	Less stable deposits	313,921.29	53,129.10	56,426.73		423,477.12
7	Wholesale funding:	1,815.11	-	1,344,400.73	672,200.36	673,107.92
8	Operational deposits	1,815.11				907.56
9	Other wholesale funding			1,344,400.73		672,200.36
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	315,087.17				-
14	**Total ASF**					**3,254,189.46**

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					15,106.75
16	Deposits held at other financial institutions for operational purposes	33,614.18				16,807.09
17	Performing loans and securities:	-	174,201.17	851,444.88	2,197,697.17	2,463,697.25
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			54,979.17		27,489.59
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		174,201.17	796,465.71		425,221.38
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:				2,167,064.67	1,842,004.97
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				219,913.37	142,943.69
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				30,632.49	26,037.62
25	Assets with matching interdependent liabilities					
26	Other Assets:	-	-		205,732.41	205,732.41
27	Physical traded commodities, including gold					-

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS (Continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					-
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories				205,732.41	205,732.41
32	Off-balance sheet items					57,757.72
33	**TOTAL RSF**					**2,759,101.21**
34	**NET STABLE FUNDING RATIO (%)**					**117.94%**

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the values for the 12 months reflecting average during the year 2020.

NSFR is computed on a monthly basis and year end position of NSFR for Bank Dhofar (consolidated entity) was at 108.60% as at 31 December 2020 (115% as at 31 December 2019).

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT

31st DECEMBER 2020

Independent auditor's report to the shareholders of Bank Dhofar 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 Bank Dhofar 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.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Our audit approach

Overview

Key Audit Matter	• Measurement of expected credit losses

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.

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

Measurement of expected credit losses (ECL)

The ECL expense for the year ended 31 December 2020 amounted to RO 28.99 million and the ECL provision as at that date amounted to RO 132.31 million.

The Bank applies ECL on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments.

The ECL provision represents the directors' best estimate of the credit losses as at the statement of financial position date.

We considered the measurement of ECL as a key audit matter as the determination of ECL has a material impact on the financial statements. It also requires the directors to exercise judgement and make complex estimates that impact the size and the timing of the ECL, including:

- identifying portfolios of similar financial instruments;
- choosing appropriate models and assumptions for the measurement of ECL including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD);
- determining criteria for significant increase in credit risk (SICR);
- assessing the recoverability of Stage 3 financial assets;
- establishing the number and relative weightings of forward-looking scenarios for each type of financial instrument and the associated ECL; and
- determining disclosure requirements in accordance with accounting standards.

The uncertainties associated with Covid-19 has increased the degree of judgement required to be exercised in calculating ECL.

Specifically, this includes judgements regarding the impact of Covid-19 on the credit quality, forward looking information, including variables used in macroeconomic scenarios and their associated weightings.

Information on credit risk and the Bank's credit risk management is provided in note 32 A. Disclosure of the impairment allowance and the net impairment charge for the year is provided in note 7 (c) and note 7 (d).

We assessed the appropriateness of the methodology, including the use of models, and adequacy of the ECL as at 31 December 2020. Our testing included:

- understanding the Bank's IFRS 9 impairment provisioning policy and compared it with the requirements of IFRS 9;
- obtaining an understanding of and tested the completeness and accuracy of the historical and current dataset used for the ECL calculation;
- obtaining an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL;
- testing a sample of financial assets to determine the appropriateness and application of the staging criteria;
- obtaining an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and testing a sample of such credit exposures against the methodology;
- testing overlays to the ECL model for appropriateness with specific consideration for Covid-19; and
- assessing the disclosures made by the directors in the financial statements including disclosures made relating to the impact of Covid-19 on the determination of the ECL.

We carried out the above procedures in conjunction with our ECL modelling experts who supported us on specific matters including:

- testing the IFRS 9 methodology for the ECL calculation and the mathematical accuracy and logical integrity of the ECL model;
- testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used by the directors by agreeing to the latest available macro-economic information up to 31 December 2020;
- assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; and
- testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Other information

The directors are responsible for the other information. The other information comprises the Board of Director's Report; Corporate Governance Statement; Management Discussion and Analysis Report; Disclosure Requirements under Pillar III of Basel II; Maisarah Islamic Banking Services Annual Report 2020 (comprising its financial statements, the Annual Report of Shari'a Supervisory Board, including fatwas; Management Discussion and Analysis Report; and 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 and the Bank's Annual Report and Financial Highlights of last five years and Financial Ratios of last five years, which are 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, Financial Highlights of the last five years and Financial Ratios of the last five years , if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

pwc

Independent auditor's report to the shareholders of Bank Dhofar 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.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

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

- 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, actions taken to eliminate threats or safeguards applied.

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.

PricewaterhouseCoopers.

PricewaterhouseCoopers LLC
C.R. No 1230865

Mario Portelli
Muscat, Sultanate of Oman
10 March 2021

Statement of Financial Position

For the year ended 31 December 2020

2020 USD'000	2019 USD'000		Note	2020 RO'000	2019 RO'000
		Assets			
542,431	780,273	Cash and balances with Central Bank of Oman	5	**208,836**	300,405
1,189,135	983,249	Investment securities	8	**457,817**	378,551
315,642	1,223,787	Loans, advances and financing to banks	6	**121,522**	471,158
7,247,969	6,798,299	Loans, advances and financing to customers (conventional)	7	**2,790,468**	2,617,345
1,233,818	1,158,455	Islamic financing receivables	7	**475,020**	446,005
472,507	241,070	Other assets	11	**181,915**	92,812
-	1,031	Intangible asset	9	**-**	397
55,701	49,797	Property and equipment	10	**21,445**	19,172
11,057,203	11,235,961	**Total assets**		**4,257,023**	4,325,845
		Liabilities			
1,173,909	1,273,192	Due to banks	12	**451,955**	490,179
6,462,476	6,592,122	Deposits from customers (conventional)	13	**2,488,053**	2,537,967
969,512	1,052,522	Islamic customers deposits	13	**373,262**	405,221
506,714	340,501	Other liabilities	14	**195,085**	131,093
46,244	29,494	Tax Liabilities	24 (e)	**17,804**	11,355
90,909	165,909	Subordinated loans	15	**35,000**	63,875
9,249,764	9,453,740	**Total liabilities**		**3,561,159**	3,639,690
		Shareholder's equity			
778,273	778,273	Share capital	16(a)	**299,635**	299,635
248,457	248,457	Share premium	17	**95,656**	95,656
161,104	153,158	Legal reserve	18(a)	**62,025**	58,966
45,423	48,021	Special reserve	18(d)	**17,488**	18,488
3,327	3,327	Special reserve for restructured loans	18(e)	**1,281**	1,281
31,647	12,088	Special Impairment reserve	18(f)	**12,184**	4,654
(1,842)	(1,842)	Special revaluation reserve – Investment	18(g)	**(709)**	(709)
54,546	111,364	Subordinated loan reserve	18(b)	**21,000**	42,875
(6,156)	(1,629)	Investment revaluation reserve	18(c)	**(2,370)**	(627)
88,764	27,106	Retained earnings	19	**34,174**	10,436
1,403,543	1,378,323	**Total equity attributable to the equity holders of the Bank**		**540,364**	530,655
403,896	403,896	Perpetual Tier 1 Capital Securities	16(b)	**155,500**	155,500
1,807,439	1,782,219	**Total equity**		**695,864**	686,155
11,057,203	11,235,959	**Total liabilities and equity**		**4,257,023**	4,325,845
1,718,158	2,106,312	**Contingent liabilities and commitments**	28(a)	**661,491**	810,930
0.47	0.46	**Net assets per share (Rial Omani)**	20	**0.180**	0.177

The financial statements including notes and other explanatory information were approved and authorised for issue by the Board of Directors on 28 January 2020 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Independent auditor's report - pages 127 to 132

Statement of Comprehensive Income

For the year ended 31 December 2020

2020 USD'000	2019 USD'000		Note	2020 RO'000	2019 RO'000
454,400	473,052	Interest income	21	**174,944**	182,125
(214,870)	(222,039)	Interest expense	22	**(82,725)**	(85,485)
239,530	251,013	**Net interest income**		**92,219**	96,640
78,727	68,156	Income from Islamic financing / Investments	21	**30,310**	26,240
(38,673)	(35,901)	Unrestricted investment account holders' share of profit and profit expense	22	**(14,889)**	(13,822)
40,054	32,255	**Net income from Islamic financing and investment activities**		**15,421**	12,418
42,839	47,787	Fees and commission income		**16,493**	18,398
(7,543)	(10,834)	Fees and commission expense		**(2,904)**	(4,171)
35,296	36,953	**Net fees and commission income**	29	**13,589**	14,227
22,764	17,348	Other operating income	22	**8,764**	6,679
337,644	337,569	**Operating income**		**129,993**	129,964
(151,714)	(170,852)	Staff and administrative costs	23	**(58,410)**	(65,778)
(17,322)	(14,795)	Depreciation	10	**(6,669)**	(5,696)
(169,036)	(185,647)	**Operating expenses**		**(65,079)**	(71,474)
(75,299)	(58,166)	Net impairment losses on financial assets	7	**(28,990)**	(22,394)
(3)	(10)	Bad debts written-off		**(1)**	(4)
93,306	93,746	**Profit from operations after provision**		**35,923**	36,092
(13,865)	(15,190)	Income tax expense	24	**(5,338)**	(5,848)
79,441	78,556	**Profit for the year**		**30,585**	30,244
		Other comprehensive (expense)/ income:			
		Items that will not be reclassified to profit or loss			
(956)	(1,252)	Movement in fair value reserve (FVOCI equity instrument)	18(c)	**(368)**	(482)
		Items that are or may be reclassified to profit or loss in subsequent periods:			
(3,571)	4,270	Movement in fair value reserves (FVOCI debt instruments)	18(c)	**(1,375)**	1,644
(4,527)	3,018	Other comprehensive (expense)/ income for the year, net of tax		**(1,743)**	1,162
74,914	81,574	**Total comprehensive income for the year**		**28,842**	31,406
0.02	0.02	**Earnings per share basic and diluted (Rials Omani)**	25	**0.007**	0.006

The notes on pages 142 to 241 are an integral part of these financial statements.
Independent auditor's report - pages 127 to 132

Statement of Changes in Equity

For the year ended 31 December 2020

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

The notes on pages 142 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 127 to 132

Statement of Changes in Equity
For the year ended 31 December 2020

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured Loan USD'000	Special impairment reserve IFRS 9 USD'000	Special revaluation reserve IFRS 9 USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balance at 1 January 2020		778,273	248,457	153,158	48,021	3,327	12,088	(1,842)	111,364	(1,629)	27,106	1,378,323	403,896	1,782,219
Profit for the year		-	-	-	-	-	-	-	-	-	79,442	79,442	-	79,442
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
- FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(956)	-	(956)	-	(956)
- FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(3,571)	-	(3,571)	-	(3,571)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	(4,527)	79,442	74,915	-	74,915
Transfer to special impairment reserve IFRS 9 (net of tax)	18(f) & 7(d)	-	-	-	-	-	19,559	-	-	-	(19,558)	-	-	-
Transfer to legal reserve	18(a)	-	-	7,946	-	-	-	-	-	-	(7,945)	-	-	-
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	18,182	-	(18,182)	-	-	-
	18(b)	-	-	-	-	-	-	-	(75,000)	-	75,000	-	-	-
Transfer to Retained Earnings	18(d)	-	-	-	(2,598)	-	-	-	-	-	2,597	-	-	-
Perpetual Tier 1 capital securities:		-	-	-	-	-	-	-	-	-	-	-	-	-
- Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	-	-
- Issuance cost		-	-	-	-	-	-	-	-	-	(26,348)	(26,348)	-	(26,348)
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with equity holders recorded directly in equity		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(23,348)	(23,348)	-	(23,348)
Balances as at 31 December 2020		778,273	248,457	161,104	45,423	3,327	31,647	(1,842)	54,546	(6,156)	88,764	1,403,543	403,896	1,807,439

The notes on pages 142 to 241 are an integral part of these financial statements.
Independent auditor's report - pages 127 to 132

Statement of Changes in Equity
For the year ended 31 December 2019

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

The notes on pages 142 to 241 are an integral part of these financial statements.
Independent auditor's report - pages 127 to 132

Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured Loan USD'000	Special impairment reserve IFRS 9 USD'000	Special revaluation reserve IFRS 9 USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balance at 1 January 2019		727,358	248,457	145,138	48,021	3,327	11,849	(1,842)	78,182	(4,647)	153,668	1,409,511	403,896	1,813,407
Profit for year		-	-	-	-	-	-	-	-	-	78,556	78,556	-	78,556
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-	-	-
- FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(1,252)	-	(1,252)	-	(1,252)
- FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	4,270	-	4,270	-	4,270
Total comprehensive income for the year		-	-	-	-	-	-	-	-	3,018	78,556	81,574	-	81,574
Reversal of special impairment reserve to IFRS 9 provision (Net Tax)	18(f)	-	-	-	-	-	(11,849)	-	-	-	-	(11,849)	-	(11,849)
Transfer to special impairment reserve IFRS 9	18(a)	-	-	-	-	-	12,088	-	-	-	(12,088)	-	-	-
Transfer to legal reserve	18(a)	-	-	7,855	-	-	-	-	-	-	(7,855)	-	-	-
Excess of receipts over right issue expenses		-	-	165	-	-	-	-	-	-	-	165	-	165
Transfer to subordinated loan reserve	18(b)	-	-	-	-	-	-	-	33,182	-	(33,182)	-	-	-
Perpetual Tier 1 capital securities:		-	-	-	-	-	-	-	-	-	-	-	-	-
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(28,343)	(28,343)	-	(28,343)
Transactions with equity holders recorded directly in equity		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(72,735)	(72,735)	-	(72,735)
Bonus shares issued	35	50,915	-	-	-	-	-	-	-	-	(50,915)	-	-	-
Balances as at 31 December 2019		778,273	248,457	153,158	48,021	3,327	12,088	(1,842)	111,364	(1,629)	27,106	,378,323	403,896	1,782,219

The notes on pages 142 to 241 are an integral part of these financial statements.

Independent auditor's report - pages 127 to 132

Statement of Cash Flows

For the year ended 31 December 2020

2020 USD'000	2019 USD'000		2020 RO'000	2019 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES		
93,307	93,745	Profit for the year before taxation	**35,923**	36,092
		Adjustment for:		
18,353	15,826	Depreciation and amortisation	**7,066**	6,093
75,301	58,177	Net impairment on financial asset	**28,991**	22,398
(577)	(751)	Dividend Income	**(222)**	(289)
3,473	777	End of service benefits provision for the year	**1,337**	299
-	(16)	Gain on disposal of property and equipment	**-**	(6)
6,439	9,294	Interest Expense on Subordinated Loans	**2,479**	3,578
(296)	(403)	(Gain) / loss on sale of investments	**(114)**	(155)
196,000	176,649	**Operating profit before working capital changes**	**75,460**	68,010
		Change in working capital:		
(99,283)	315,197	Due to banks	**(38,224)**	121,196
910,221	(368,008)	Due from banks	**350,435**	(141,683)
(601,733)	178,974	Loans & advances and financing	**(231,667)**	68,905
(220,777)	29,242	Other assets	**(84,999)**	11,258
(212,657)	48,530	Customer deposits	**(81,873)**	18,684
163,522	(34,148)	Other liabilities	**62,956**	(13,147)
135,293	346,436	**Cash (used in)/ generated from operations before tax and end of service benefits**	**52,088**	133,223
(8,319)	(19,951)	Taxes paid	**(3,203)**	(7,681)
(1,106)	(558)	End of service benefits paid	**(426)**	(215)
125,868	325,927	**Net cash (used in)/ generated from operating activities**	**48,459**	125,327
		CASH FLOWS FROM INVESTING ACTIVITIES		
(23,421)	(26,397)	Purchase of property and equipment	**(9,017)**	(10,163)
577	751	Dividends received from investment securities	**222**	289
(457,151)	(597,197)	Purchase of investments	**(176,003)**	(229,921)
247,226	404,101	Proceeds from sale/maturities of investments	**95,182**	155,579
192	**566**	Proceeds from sale of property and equipment	**74**	218
(232,577)	(218,176)	**Net cash used in investing activities**	**(89,542)**	(83,998)

2020 USD'000	2019 USD'000		2020 RO'000	2019 RO'000
		CASH FLOWS FROM FINANCING ACTIVITIES		
(75,000)	-	(Repayment) of subordinated loans	**(28,875)**	-
(23,348)	(72,735)	Dividend paid	**(8,989)**	(28,003)
(26,348)	(28,343)	Interest on Tier 1 perpetual subordinated bond	**(10,144)**	(10,912)
(6,439)	(9,294)	Interest expense on subordinated loans	**(2,479)**	(3,578)
-	166	Excess of Rights Issue Receipt	**-**	64
(131,135)	(110,206)	**Net cash used from financing activities**	**(50,487)**	(42,429)
(237,842)	(2,857)	**NET CHANGE IN CASH AND CASH EQUIVALENTS**	**(91,569)**	(1,100)
778,974	781,831	**Cash and cash equivalents at 1 January**	**299,905**	301,005
541,132	778,974	**Cash and cash equivalents at 31 December**	**208,336**	299,905
		Cash and cash equivalent comprises of:		
542,431	780,273	Cash and balances with Central Bank of Oman	**208,836**	300,405
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	**(500)**	(500)
541,132	778,974		**208,336**	299,905

The notes on pages 142 to 241 are an integral part of these financial statements.
Independent auditor's report - pages 127 to 132

Statement of Cash Flows

For the year ended 31 December 2020

Reconciliation of liabilities and equity arising from financing activities:

2020 USD'000	2019 USD'000		2020 RO'000	2019 RO'000
		Subordinated loan		
165,909	165,909	Balance at beginning of the period	**63,875**	63,875
(75,000)	-	Cash flows	**(28,875)**	-
90,909	165,909	Balance at end of the period	**35,000**	63,875
		Retained earnings		
27,106	153,668	Balance at beginning of the year	**10,436**	59,162
79,442	78,556	Profit for the year	**30,585**	30,244
(7,945)	(7,855)	Transfer to legal reserve	**(3,059)**	(3,024)
(18,182)	(33,182)	Transfer to subordinate reserve	**(7,000)**	(12,775)
75,000	-	Transfer from subordinated loans to retained earning	**28,875**	-
(26,348)	(28,343)	Additional Tier 1 coupon	**(10,144)**	(10,912)
(19,558)	(12,088)	Transfer to special reserve (IFRS 9) Net Tax	**(7,530)**	(4,654)
2,597	-	Transfer to Retained earnings from Special reserve	**1,000**	-
-	(50,914)	Bonus shares issued	**-**	(19,602)
(23,348)	(72,735)	Dividend transfer	**(8,989)**	(28,003)
88,764	27,107	**Balance at end of the year**	**34,174**	10,436

Non cash Transaction

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

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

The notes on pages 142 to 241 are an integral part of these financial statements.
Independent auditor's report - pages 127 to 132

Notes to the financial statement
For the year ended 31 December 2020

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

2. BASIS OF PREPARATION (continued)

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

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

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

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

The Bank also elected to adopt the following amendments early:

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

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

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

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

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

2. BASIS OF PREPARATION (continued)

2.7 Changes in accounting policies (continued)

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

In response to the COVID-19 coronavirus pandemic, in May 2020 the International Accounting Standards Board (the Board) issued an amendment to IFRS 16 Leases to provide practical relief for lessees in accounting for rent concessions. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all of the following criteria are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to the other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020. Early application is permitted. The Bank has early adopted the amendment and applied the practical expedient consistently to eligible rent concessions.

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

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

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

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

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

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.1 Recognition and initial measurement (continued)

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

3.2.2 Classification

(a) Financial assets

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income

1) Debt Instruments

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

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

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

2) Equity Instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

Financial assets measured at fair value through profit or loss

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

Business model assessment

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

Business model assessment (contimued)

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

Modifications of financial assets

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

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

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

Financial guarantee contracts and loan commitments

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

Loans & advances and financing receivables

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

3.2.3 De-recognition

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 De-recognition (continued)

Financial assets (continued)

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

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

Financial liabilities

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

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.4 Modifications of financial assets and financial liabilities (continued)

Financial liabilities (continued)

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

3.2.5 Offsetting

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

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

3.2.6 Amortised cost measurement

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

3.2.7 Fair value measurement

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

3.3 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Impairment (continued)

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

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

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

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments and defaults over a given time horizon. Bank has developed PD models for various portfolios reflecting the existing state of the environment in which the bank operates and in line with a forward looking view. The PD models are built to capture the changing risk of default of clients over a long period of time and Bank has used its own internal data to develop such models. PD is assessed for pool of borrowers falling under each rating grade using statistical tools, which represents the average expected default probability within future 12 months horizons. While the ratings itself incorporate forward looking parameters to a certain extent, the models are structured in a way to produce average PD estimates in line with historical long-run averages including forward looking information.
- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguish between those amounts forming part of (i) revolving (ii) non-revolving and (iii) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non-revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank's own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Impairment (continued)

(a) Measurement of ECL

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

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

However for unfunded exposures, ECL is measured as follows:

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

(b) Restructured financial assets

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

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

(c) Credit-impaired financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Impairment (continued)

(c) Credit-impaired financial assets (continued)

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

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

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

(d) Forward-looking information

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

(e) Macroeconomic factors

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

(f) Assessment of significant increase in credit risk

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Impairment (continued)

(g) Definition of default

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

- The counterparty is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security held (if any); or
- The counterparty is past due more than 90 days on any material credit obligation to the Bank.

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

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

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Impairment (continued)

(i) Write-off

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

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

3.4 Cash and cash equivalents

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

3.5 Due from banks

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

3.6 Property and equipment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property and equipment (continued)

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

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

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

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

3.7 Collateral pending sale

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

3.8 Intangible assets

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

3.9 Deposits

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

3.10 Income tax

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Income tax (continued)

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

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase agreements

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

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

3.14 Derivative financial instruments and hedging activities

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Derivative financial instruments and hedging activities (continued)

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

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

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

3.15 Leases

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

3.16 Employee benefits

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

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

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

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

3.17 Financial guarantees contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Borrowings

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

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

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

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 includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

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

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

(2) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (continued)

II. Fees and commission income

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

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

3.22 Dividends

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

3.23 Provisions

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

3.24 Segment reporting

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

3.25 Earnings per share

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

3.26 Perpetual Tier 1 capital securities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Impairment of Loans and Advances

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

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

4.2 Taxes

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

4.3 Classification of the Equity Tier 1 instrument under IAS 32

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

4.3 Classification of the Equity Tier 1 instrument under IAS 32 (continued)

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

4.4 Determination of lease term under IFRS 16

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

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

5. Cash and balances with the Central Bank of Oman

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

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

6. Loans, advances and financing to banks

At Amortised Cost

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

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

Movement of the impairment allowance is analysed below:

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

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

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

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

	2020 RO'000	2019 RO'000
(b) Islamic Banking Window Financing		
Housing finance	**166,054**	162,731
Corporate finance	**305,055**	276,851
Consumer finance	**13,074**	12,245
	484,183	451,827
Less: Impairment allowance	**(9,163)**	(5,822)
Net financing to customers	**475,020**	446,005
Impairment allowance includes the amount of profit reserve of RO 0.63 million and RO 0.39 million for 2020 and 2019 respectively.		
(c) The movement in the impairment allowance is analysed below:		
1. Allowance for loan impairment (conventional and Islamic)		
1 January	**94,078**	79,308
Reversal of special impairment reserve to IFRS 9 provision	**-**	5,185
Allowance for the year	**39,207**	30,151
Recoveries to statement of comprehensive income during the year	**(8,409)**	(7,996)
Written off during the year	**(5,308)**	(12,570)
31 December	**119,568**	94,078
2. Reserved interest		
1 January	**24,169**	55,793
Reserved during the year	**11,925**	12,519
Recoveries to statement of comprehensive income during the year	**(2,137)**	(1,623)
Written-off during the year	**(9,238)**	(42,520)
31 December	**24,719**	24,169
Total impairment allowance	**144,287**	118,247

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

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

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

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

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.

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

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

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

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

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

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

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

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

At 31 December 2020 RO'000

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

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

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

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

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

At 31 December 2019 RO'000

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

* Net of provision and reserve interest as per CBO norms

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

(d) Restructured Loans (continued)

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

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

At 31 December 2020 RO'000

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

* Net of provision and reserve interest as per CBO norms

Notes to the financial statement
For the year ended 31 December 2020

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

At 31 December 2019 RO'000

Asset Classification as per CBO Norms 31 December 2020	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	5,941	56	14	42	5,885	5,927	-	-
	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		38,013	449	2,649	(2,200)	37,564	35,364	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
Subtotal		4,760	2,953	1,881	1,072	704	2,879	-	1,103
Total (31 December 2020)	Stage 1	5,941	56	14	42	5,885	5,927	-	-
	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
Total		42,773	3,402	4,530	(1,128)	38,268	38,243	-	1,103

* Net of provision and reserve interest as per CBO norms

5. Impairment charge and provisions held 2020

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

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

Note 1: Excluding Interest Reserve of RO 24.72 million.

5 (a) Special impairment reserve

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

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

5 (a) Special impairment reserve (continued)

Impairment charge and provisions held 2019

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

Note 1: Excluding Interest Reserve of RO 24.17 million.

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

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

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

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

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

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

Movement of Provision for the year ended 31 December 2019

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

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

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

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

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

6. Financial assets and financial liabilities

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

RO'000

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

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

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

6. Financial assets and financial liabilities (continued)

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

RO'000

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

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

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

(d) Classification of financial assets and financial liabilities

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

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

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

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

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

(e) Classification of financial assets and financial liabilities

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

RO'000

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

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

RO'000

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

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

8. Investment securities

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

8. Investment securities (continued)

8.1 Categories of investments by measurement

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

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

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

The movements in investment securities are summarised as follows:

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

8. Investment securities (continued)

8. 1 Categories of investments by measurement (continued)

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

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

The movements in investment securities are summarised as follows:

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

9. Intangible asset

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

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

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

10. Property and equipment

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

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

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

11. Other assets

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

12. Due to banks

	2020 RO'000	2019 RO'000
Syndicated Inter bank borrowings	**325,325**	192,500
Inter bank borrowings	**126,290**	297,368
Payable on demand	**340**	311
	451,955	490,179

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

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

13. Deposits from customers – Conventional Banking

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

13. Deposits from customers – Conventional Banking (continued)

Deposits from customers - Islamic Banking window

	2020 RO'000	2019 RO'000
Current accounts	**99,014**	112,498
Savings accounts	**53,456**	39,319
Time deposits	**220,792**	253,404
	373,262	405,221

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

14. Other liabilities

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

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

(1) Employee terminal benefits

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

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

15. Subordinated loans

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

	2020 RO'000	2019 RO'000
Subordinated loan - RO (1) & (2)	**35,000**	35,000
Subordinated loan - US Dollar (3)	**-**	28,875
	35,000	63,875

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

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

16.(a) Share capital

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

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

Shareholders§

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

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

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

16.(b) Perpetual Tier 1 Capital Securities

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

Tier 1 USD Securities

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

The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority. However, due to prevailing COVID-19 global pandemic and market conditions at that time, the Bank was not able to exercise the option at the First Call Date. After the first call date, the Bank has a semi-annual right to call the Capital Securities on any interest payment date, with the next possible call date being 27 May 2021.

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

Tier 1 RO Securities

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

The Tier 1 RO Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 RO Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

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

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

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

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

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

17. Share premium

1. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36.18 million and RO 18.09 million, respectively.
2. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21.62 million and RO 17.95 million, respectively.
3. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20 million and RO 19.60 million, respectively.
4. In 2013, the shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to RO 13.31 million (133,114,993 shares of par value RO 0.100 each) from the share premium account.
5. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17.69 million and RO 53.08 million, respectively.

18. Reserves

(1) Legal reserve

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

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

(2) Subordinated loans reserve

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

18. Reserves (continued)

(3) Subordinated loans reserve (continued)

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

(4) Investment revaluation reserve

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

The movement in the investment revaluation reserve is analysed below:

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

(5) Special reserve

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

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

(6) Special reserve – restructured loans

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

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

(7) Special Impairment reserve IFRS 9

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

(8) Special investment revaluation reserve IFRS 9

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

19. Retained earnings

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

20. Net assets per share

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

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

21. Net interest income

	2020 RO'000	2019 RO'000
Conventional Banking		
Loans and advances	**149,621**	153,126
Due from banks	**8,478**	16,534
Investments	**16,845**	12,465
Total	**174,944**	182,125
Islamic Banking		
Islamic financing receivables	**26,983**	23,851
Islamic due from banks	**23**	153
Investments	**3,304**	2,236
Total	**30,310**	26,240

22. Interest expense / profit distribution to depositors

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

22. Interest expense / profit distribution to depositors (continued)

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

	2020 RO'000	2019 RO'000
(1) Other operating income		
Foreign exchange	**6,841**	4,268
Investment income 22 (b)	**336**	444
Miscellaneous income	**1,587**	1,967
	8,764	6,679
(2) Investment income		
Dividend income	**222**	289
Gain on disposals	**114**	155
	336	444

23. Staff and administrative costs

	2020 RO'000	2019 RO'000
(1) Staff costs		
Salaries and allowances	**35,026**	36,205
Other personnel costs	**5,102**	11,294
Non-Omani employees terminal benefit	**1,328**	299
	41,456	47,798
At 31 December 2020, the Bank had 1,522 employees (2019: 1,586 employees).		
(2) Administrative costs		
Occupancy costs	**3,388**	4,003
Operating and administration cost	**12,734**	12,069
Impairment of goodwill	**397**	397
Others	**435**	1,511
	16,954	17,980
Total staff and administrative cost	**58,410**	65,778

24. Income tax

(1) Income tax expense:

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

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

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

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

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

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

24. Income tax (continued)

(3) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2019 - 15%).

Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Impairment allowance on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax liability are as follows:

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

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

24. Income tax (continued)

(4) Status of previous year returns:

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

Tax liability

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

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

25. Earnings per share (basic and diluted)

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

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

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

2..6 Related parties transactions

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

	2020 RO'000	2019 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**51,274**	42,445
Other related parties	**24,829**	25,755
	76,103	68,200
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**15,000**	23,663
Other related parties	**14,000**	19,775
	29,000	43,438
Deposits and other accounts		
Directors and shareholders holding 10% or more interest in the Bank	**265,198**	125,597
Other related parties	**159,109**	213,739
	424,307	339,336
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**3,840**	3,305
Other related parties	**5,186**	5,201
	9,026	8,506
Remuneration paid to Directors		
Chairman		
– remuneration paid	**36**	15
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**264**	100
– sitting fees paid	**78**	75
	388	200
Other transactions		
Rental payment to related parties	**554**	564
Other transactions	**2,734**	2,894
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**50**	48
Key management compensation		
- salaries and other short-term benefits	**1,601**	1,740

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

27. Single borrower and senior members

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

28. Contingent liabilities and commitments

(1) Credit related contingent items

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

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

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

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

(b) Capital and investment commitments

	2020 RO'000	2019 RO'000
Contractual commitments for property and equipment	**9,426**	4,269

(2) Non-cancellable leases

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

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

28. Contingent liabilities and commitments (continued)

(3) Non-cancellable leases (continued)

	2020 RO'000	2019 RO'000
Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:		
Within one year	**2,292**	2,014
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	2,292	2,041
Rental expense relating to leases		
Minimum lease payments	**1,695**	2,440
Contingent rentals	**-**	-
Total rental expense relating to leases	**1,695**	2,440

(4) Legal proceedings

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

29. Disaggregation of net fees and commission income 2020

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

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

29. Disaggregation of net fees and commission income 2020 (continued)

Disaggregation of net fees and commission income 2019

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

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

30. Derivative financial instruments

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

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

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

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

30. Derivative financial instruments (continued)

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

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

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

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

31. Fair value information

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

Fair value measurements recognised in the statement of financial position

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

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

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

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

31. Fair value information (continued)

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

Level 3 movement

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

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

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

Transfer between level 1 and level 2

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

32. Financial risk management

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

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

32. Financial risk management (continued)

4. Credit Risk

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

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

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

Impact of COVID-19

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

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

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration have been given both to the effects of COVID-19 and the government support measures being undertaken.

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

32. Financial risk management (continued)

1. Credit Risk (continued)

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

Bank has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of additional ECL provisions and impairment allowances as disclosed in note 7 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposures are undertaken on selective basis duly supported by the cash flows that that can be firmly established and the requirements are considered with proper monitoring mechanism.

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

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

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

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

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

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

Sensitivity of ECL to future economic conditions

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

32. Financial risk management (continued)

1. Credit Risk (continued)

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

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

Accounting for modification loss

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

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

Analysis on the deferment benefits used by the Borrowers

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

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

Amount RO 000's

Customer Type	Outstanding	Total Deferred loans	ECL
Retail category 1	528,325	6,557	4,398
Retail category 2	71,944	2,097	1,859
Total	**600,269**	**8,653**	**6,257**

*Category 1 are customers with regular salary

** Category 2 are customers with irregular salary

32. Financial risk management (continued)

1. Credit Risk (continued)

Sector-wise analysis of Corporate borrowers benefiting from deferred payments

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

32. Financial risk management (continued)

1. Credit Risk (continued)

Impact on the Capital Adequacy:

Besides, the bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. As per the Prudential filter, the Tier II capital of the Bank will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

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

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

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

Liquidity and Market Risk:

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

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

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000 thousand. The Tier 1 USD Securities are listed on Irish Stock Exchange. The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure

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

1. Geographical concentrations

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

2. Customer concentrations

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

3. Economic sector concentrations

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

4. Gross credit exposure

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

5. Geographical distribution of exposures:

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

6. Industry type distribution of exposures by major types of credit exposures:

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

Notes to the financial statement
For the year ended 31 December 2020

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

6. Industry type distribution of exposures by major types of credit exposures: (continued)

	Overdrafts RO'000	Loans including Islamic financing RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
31 December 2019						
Import trade	10,972	79,776	-	12,588	103,336	25,662
Export trade	188	121	-	5	314	59
Wholesale/retail trade	4,821	21,008	-	2,349	28,178	21,661
Mining and quarrying	1,859	16,723	162	13	18,757	619
Construction	53,015	399,072	4,683	77,871	534,641	379,395
Manufacturing	16,933	121,123	3,527	42,789	184,372	44,491
Electricity, gas and water	715	161,826	-	169	162,710	14,675
Transport and Communication	1,048	1,455	-	556	3,059	5,047
Financial institutions	1,248	143,728	1,940	-	146,916	236,531
Services	25,200	149,100	-	2,015	176,315	31,339
Personal loans	1,625	1,276,017	-	8,943	1,286,585	3,875
Agriculture and allied Activities	4,022	4,543	22	1,782	10,369	813
Government	-	248,739	-	3	248,742	18,446
Non-resident lending	-	-	-	-	-	
Others	16,181	254,326	-	6,796	277,303	28,317
	137,827	2,877,557	10,334	155,879	3,181,597	810,930

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

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

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

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

8. Credit Quality Analysis

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

8. Credit Quality Analysis (continued)

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

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

9. Inputs, assumptions and techniques used for estimating impairment

1. Significant increase in credit risk (SICR)

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

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

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

Incorporation of forward looking information

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

9. Inputs, assumptions and techniques used for estimating impairment (continued)

2. Economic variable assumptions

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

31 December 2020

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

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

31 December 20219

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

9. Inputs, assumptions and techniques used for estimating impairment (continued)

3. Sensitivity analysis

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

Retail portfolios

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

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

Wholesale portfolios

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

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

10. Loss Allowance

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality

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

2020:

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

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

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

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

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

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

* includes Corporate & SME , Retail and Banks

Notes to the financial statement
For the year ended 31 December 2020

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

* includes Corporate & SME , Retail and Banks

2019:

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

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

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

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

11. Credit Quality (continued)

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

* includes Corporate & SME , Retail and Banks

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

* includes Corporate & SME , Retail and Banks

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

12. Distribution of impaired loans

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

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

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

32. Financial risk management (continued)

1. Credit Risk (continued)

1. Credit Exposure (continued)

12. Distribution of impaired loans (continued)

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

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

Analysis of impairment and collateral

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

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

32. Financial risk management (continued)

2. Liquidity risk

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

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

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

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

32. Financial risk management (continued)

2. Liquidity risk (continued)

Maturity profile of assets and liabilities

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

** Including Perpetual Tier 1 capital securities

32. Financial risk management (continued)

2. Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

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

** Including Perpetual Tier 1 capital securities

32. Financial risk management (continued)

2. Liquidity risk (continued)

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

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

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

3. Market risk

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

1. Currency risk

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

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

Foreign currency exposures

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

32. Financial risk management (continued)

3. Market risk (continued)

2. Interest rate risk

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

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

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

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

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

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

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

Interest rate sensitivity gap

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

32. Financial risk management (continued)

3. Market risk (continued)

2. Interest rate risk (continued)

Interest rate sensitivity gap (continued)

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

** Including Perpetual Tier 1 capital securities

32. Financial risk management (continued)

3. Market risk (continued)

2. Interest rate risk (continued)

Interest rate sensitivity gap (continued)

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

** Including Perpetual Tier 1 capital securities

32. Financial risk management (continued)

3. Market risk (continued)

3. Investment Price risk

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

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

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

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

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

4. Operational risk

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

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

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

32. Financial risk management (continued)

4. Operational risk (continued)

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

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

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

Business Continuity Planning (BCP)

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

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.
- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.
- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment's, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

32. Financial risk management (continued)

4. Operational risk (continued)

Business Continuity Planning (BCP) (continued)

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.
- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

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

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

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

33. Capital risk management

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

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

33. Capital risk management (continued)

Capital adequacy

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

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

34. Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and

3) Treasury and investments

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

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

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

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

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

34. Segmental information (continued)

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

34. Segmental information (continued)

Islamic Banking Window

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

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

35. Dividends – proposed and declared

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

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

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

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

36. Leases

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

1. Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

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

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

2. Amounts recognised in the statement of comprehensive income

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

	2020 RO'000	2019 RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**1,476**	876
Interest expense (included in finance costs)	**34**	56
Expense relating to short-term leases	**1,695**	1,929

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

36. Leases (continued)

3. The Bank's leasing activities and how these are accounted for

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

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

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

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to statement of comprehensive income on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank:

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

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

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

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

36. Leases (continued)

3. The Bank's leasing activities and how these are accounted for (continued)

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

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

4. Extension and termination options

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

Critical judgements in determining the lease term

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

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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

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

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

37. Comparative figures

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

1. Interest Income reclassified;

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

2. Cash flows from interest income on investment securities:

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

3. Cash flows from due to banks and due from banks:

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

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MAISARAH ISLAMIC BANKING SERVICES

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للخدمات المصرفية الإسلامية
Islamic Banking Services

MAISARAH ISLAMIC BANKING SERVICES WINDOW OF BANKDHOFAR SAOG

Annual Report 2020

ANNUAL REPORT OF
SHARI'A SUPERVISORY BOARD
31st DECEMBER 2020

Report of Shari'a Supervisory Board

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – Bank Dhofar (S.A.O.G)

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions.

In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2020:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2020. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by us.

Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.

We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles.

In our opinion:

a) The affairs of Maisarah have been carried out in accordance with the rules and principles of Sharia, Central Bank's regulations and guidelines related to Sharia compliance and other rules as well as with specific Fatwa and rulings issued by the SSB from time to time;

b) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2020 that we have reviewed are in compliance with Sharia principles;

c) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles;

d) Earnings that have been realized from sources or by means prohibited by Sharia principles have been identified and segregated for disposal to charity.

We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:

a) Although Maisarah has focused on training and development of human resources in 2020, however more focus is required for training of new and existing staff in 2021;

b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking;

c) As MIBS operations are expected to increase in 2021, therefore, management should further focus on ensuring highest standard of Sharia compliance;

d) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.

We beg Allah the almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Date: January 25, 2021
Place: Muscat, Sultanate of Oman

فتوى هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية

بسم الله الرحمن الرحيم

الحمد لله رب العالمين. والصلاة والسلام على أشرف الأنبياء والمرسلين وعلى آله وصحبه أجمعين.

Pronouncement of the Maisarah Islamic Banking Services Sharia Supervisory Board

In the name of Allah, the Most Gracious, the Most Merciful
All praise is due to Allah, the Cherisher of the world
Peace be upon the Prophet of Allah, on his family and all his companions

الشركة العمانية للصكوك السيادية ش م ع م
برنامج إصدار الصكوك بالريال العماني للإصدار الرابع

OMAN SOVEREIGN SUKUK S.A.O.C.

Omani Rial Sukuk Issuance Programme - 4th Series

	The Maisarah Islamic Banking Services Sharia Supervisory Board (the SSB) has been presented with the below described structure and documentation for the purpose of Sukuk issuance.	عرضت على هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية الهيكلة المذكورة أدناه والوثائق لأجل إصدار الصكوك.	
1	**Introduction**	المقدمة	1
1.1	Oman Sovereign Sukuk S.A.O.C. (the **Issuer**), an Omani closed joint stock company wholly owned by or on behalf of the Government, will issue Sukuk (the **Sukuk**) to investors (the **Sukuk holders**) and collect the proceeds (the **Proceeds**) from the Sukuk holders.	ستصدر الشركة العمانية للصكوك السيادية (**المصدر**) وهي شركة مساهمة عمانية مقفلة بسلطنة عمان مملوكة بالكامل للحكومة أو من ينوب عن الحكومة شهادات صكوك (**الصكوك**) للمستثمرين (حملة الصكوك) وتجمع مساهمات الصكوك من حملة الصكوك.	1.1
1.2	The Issuer, in its capacity as trustee will, pursuant to a Master Declaration of Trust (the Declaration of Trust), declare a trust in favour of the Sukuk holders over the Proceeds, the trustee's rights, title, interest and benefit in, to and under the Lease Assets as well as the Transaction Documents and the monies standing to the credit of the Transaction Account(s).	سيعلن المصدر بوصفه أميناً وفقاً لسند العهدة الرئيسي (سند العهدة) عن وجود العهدة لصالح حملة الصكوك على المساهمات وحقوق الأمين والملكية والمصلحة والمنفعة على أصول الإجارة بالإضافة إلى اتفاقيات المعاملة والنقود التي ستدفع إلى حسابات المعاملة.	1.2
2	**Purchase of the Lease Assets**	شراء أصول الإجارة	2

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2.1	A Master Purchase Agreement will be entered into between Oman Sovereign Sukuk S.A.O.C. (in its independent capacity as Trustee, Purchaser) and the Government (in its capacity as Seller).	ستدخل الشركة العمانية للصكوك السيادية في اتفاقية الشراء الرئيسية (بصفتها أمينا ومشتريا) مع الحكومة (بصفتها بائعا).	2.1
2.2	On the issue date (the **Issue Date**), the Issuer will use the Sukuk Proceeds to purchase from the Government (the **Seller**), pursuant to a Supplemental Purchase Agreement (the **Purchase Agreement**), a [•] per cent. undivided ownership interest in the Government's 60.76 per cent. undivided ownership interest in the plot of logistics land (the **Land**) located in Barka with Commercial Plot Number 3-07-001-01-001 and as more particularly described in the extract provided by the Sultanate of Oman Ministry of Housing. The title of the Ijarah property will remain with the Government. However ownership interest will be transferred to purchaser upto the amount of Sukuk proceeds.	بتاريخ الإصدار (**تاريخ الإصدار**)، سيستخدم المصدر مساهمات الصكوك للشراء من الحكومة (**البائع**) وفقاً لاتفاقية الشراء التكميلية (**اتفاقية الشراء**) نسبة ( ) % حصة مشاعة في قطعة الأرض المملوكة للحكومة حيث تتملك الحكومة 60.76% حصة مشاعة في قطعة الأرض اللوجستية (**الأرض**) الواقعة بمدينة بركاء المسجلة برقم تجاري 3-07-001-01-001 وهي مبينة بالتفصيل في الملخص الذي زودته وزارة الإسكان بسلطنة عمان. ستبقى ملكية أصول الإجارة باسم الحكومة ولكن ستنتقل ملكيتها شرعاً إلى المشتري (حملة الصكوك) بموجب عقد البيع إلى حد مبلغ مساهمات الصكوك.	2.2
3	**Lease of the lease Asset**	**تأجير أصول الإجارة**	**3**
3.1	A Master Lease Agreement will be entered into between Oman Sovereign Sukuk S.A.O.C. (in its independent capacity as Lessor) and the Government (in its capacity as Lessee).	سوف تدخل الشركة العمانية للصكوك السيادية في اتفاقية الإيجار الرئيسية (بصفتها مؤجرا) مع الحكومة (بصفتها مستأجرا).	3.1
3.2	On the Issue Date, the Issuer will lease the Lease Assets (in such capacity, the **Lessor**) to the Government (in such capacity, the **Lessee**) pursuant to a Supplemental Lease Agreement (hereinafter will be referred to as the **Lease Agreement**). The Lease Agreement will specify the Lessee's intentions with respect to the Lease Assets which are currently to integrate the Land for development by means of the integration of the plot of land representing the Lease Asset into the industrial zone of Barka for the use	في تاريخ الإصدار، سيقوم المصدر (بصفته مؤجرا) بتأجير أصول الإجارة إلى الحكومة (بصفتها مستأجرا) بموجب عقد إيجار تكميلي (**عقد الإيجار**). وستحدد اتفاقية الإيجار غرض المستأجر فيما يتعلق بأصول الإجارة حيث سيتم تطوير مشاريع استراتيجية على الأرض لتكون مدينة بركاء منطقة صناعية لاستخدامها بدون تحديد كميناء جاف، وميدان الأمداد والتجهيز وخطة التطوير الأخرى (في كل حالة، بهدف إنشاء أنشطة تجارية مدرة للدخل على الأرض) حسب ما قرره المستأجر من وقت لآخر وفق الضوابط الشرعية.	3.2

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	without limitation as a dry port and logistics park and any other development plan (in each case, with the objective of creating revenue generating commercial activities on such land) as determined by the Lessee from time to time in accordance with principles of Shari'a.		
3.3	Lessee will make rental payments at regular intervals (Rental Period) equal to the rent amount as agreed in the Lease Agreement between the contracting parties.	يقوم المستأجر بتسديد دفعات الإيجار على فترات منتظمة (**فترة تأجير**) يساوي مبلغ الإيجار المتفق عليه في اتفاقية الإيجار بين الأطراف.	3.3
3.4	The rent paid by the Lessee to the Lessor in respect of each rental period is intended to be sufficient to fund the periodic distribution amount for the corresponding period payment to the Sukukholders. For the avoidance of doubt, upon the occurrence of a Total Loss Event the Lease Agreement will terminate and no further rentals shall be payable. If the Lease Assets are replaced within 30 days after the occurrence of a Total Loss Event in accordance with the Servicing Agency Agreement, a new Supplemental Lease Agreement shall be entered into in respect of the replacement Lease Assets.	سيكون الإيجار المستحق الدفع من المستأجر للمؤجر مساوياً لمبالغ التوزيع الدوري للفترة المقابلة المستحقة بموجب الصكوك. تجنبا للشك، فإنه في حال حدوث التلف الكلي فإن عقد الإجارة ينفسخ، وتتوقف دفعات الإجارة حينها. إذا تم تبديل أصول الإجارة خلال 30 يوماً من حدوث التلف الكلي حسب اتفاقية وكالة الخدمات، سيتم تنفيذ اتفاقية الإيجار التكميلية الجديدة لتبديل أصول الإجارة.	3.4
3.5	Under the Lease Agreement, the Lessee will, at its own cost and expense, be responsible for all ordinary operational maintenance and repair in respect of the Lease Assets and the Lessor will be responsible for: (i) all major maintenance and structural repair in respect of the Lease Assets; (ii) the payment of any proprietorship or other applicable taxes in respect of the Lease Assets; and (iii) insuring the Lease Assets (such obligations of the Lessor, the **Lessor Obligations**).	بموجب اتفاقية الإجارة سيكون المستأجر مسؤولاً عن نفقات الصيانة الدورية العادية للأصول، بينما سيكون المؤجر مسؤولاً عما يلي: (أ) نفقات الصيانة الأساسية فيما يتعلق بأصول الإجارة ؛ و (ب) دفع الضرائب فيما يتعلق بأصول الإجارة ؛ و (ج) تأمين أصول الإجارة.	3.5

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د. محمد علي القري

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4	**Servicing Agent**	**وكالة الخدمة**	**4**
4.1	The Lessor will, pursuant to a Servicing Agency Agreement (the **Servicing Agency Agreement**), appoint the Government as its agent (in such capacity, the **Agent**) to provide certain services in respect of the Lease Assets.	المؤجر بموجب اتفاقية وكالة الخدمات (**اتفاقية وكالة الخدمات**) سيعين الحكومة وكيل خدمات (بصفتها **وكيلا**) للقيام بخدمات معينة فيما يتعلق بأصول الإجارة.	4.1
4.2	The Agent will undertake that it will perform the Lessor Obligations on behalf of the Lessor. In the first instance, it will use its reasonable endeavors to obtain such insurance on a Takaful basis if such Takaful insurance is available on commercially viable terms.	سيتعهد الوكيل بأداء التزامات المؤجر نيابة عن المؤجر. سيبذل الوكيل قصارى جهده للحصول على تغطية تكافلية مناسبة إذا توافرت حسب الشروط التجارية المطلوبة.	4.2
4.3	The Lessor and the Agent will agree in the Service Agency Agreement that the Lessor shall reimburse the Agent each Service Charge Amount invoiced to the Lessor. For these purposes, **Service Charge Amount** means all payments made by the Agent during the relevant rental period in respect of the services undertaken by it under the Servicing Agency Agreement.	سيتفق المؤجر والوكيل بموجب اتفاقية وكالة الخدمات على أن المؤجر سيقوم بتعويض النفقات التي تكبدها الوكيل في سبيل تنفيذ التزاماته. لهذه الأغراض، **مبلغ تكاليف الخدمة** يعني كل الدفعات التي تكبدها الوكيل خلال فترة تأجير ذات صلة فيما يتعلق بالخدمات التي قام بها بموجب اتفاقية وكالة الخدمات.	4.3
4.4	The Agent will be required under the Servicing Agency Agreement to ensure that the Lease Assets are properly insured (under Takaful) against a Total Loss Event in a covered amount, at all times, at least equal to the Full Reinstatement Value.	بموجب اتفاقية وكالة الخدمات، يتطلب من الوكيل أن يتأكد من أن أصول الإجارة تمت تغطيتها بالتأمين التكافلي ضد حال حدوث التلف الكلي بمبلغ كامل في كل وقت، على الأقل يساوي قيمة الإسترداد الكلي.	4.4
5	**Redemption of the Sukuk**	**استرداد الصكوك**	**5**
5.1	Upon the occurrence of a termination event, or upon the scheduled maturity of the Sukuk, the Issuer will be entitled to exercise a purchase undertaking (the **Purchase Undertaking**) granted by the	عند وقوع حدث الإنهاء أو عند الاستحقاق المقرر للصكوك، يحق للمصدر ممارسة تعهد الشراء الممنوح من الحكومة (بصفتها **ملتزما**) لصالح الجهة المصدرة بعد تسلم إشعار ممارسة الحق إلى الحكومة بحيث أن المصدر يستحق طلب الملتزم لشراء أصول الإجارة	5.1

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	Government (in such capacity, the **Obligor**) unilaterally in favour of the Issuer by delivery of an exercise notice to the Government pursuant to which the Issuer will be entitled to require the Obligor to purchase the Lease Assets at a price (the **Exercise Price**) equal to the aggregate of: (i) the aggregate face amount of the Sukuk then outstanding; (ii) all accrued but unpaid periodic distribution amounts (if any) relating to the Sukuk; (iii) any amounts payable by the Trustee under the Transaction Documents; and (iv) any other amounts payable on redemption of the Sukuk. A similar mechanism will apply in respect of a full or partial redemption following the exercise of a Sukuk holder put right.	بسعر (**سعر الممارسة**) يساوي الإجمالي الآتي: (أ) إجمالي القيمة الاسمية المتبقي؛ (ب) جميع مبالغ التوزيع الدورية غير المدفوعة (إن وجدت) والمرتبطة بالشهادات ؛ (ج) أي مبلغ مستحق الدفع من قبل الأمين بموجب اتفاقيات المعاملة؛ و (د) أي مبلغ مستحق الدفع لاسترداد الصكوك. سيتم تنفيذ الطريقة المماثلة للاسترداد الكلي أو الجزئي.	
6	**Substitution of the Lease Assets, Cancellation of the Sukuk and Call Rights**	**تبديل أصول الإجارة وإلغاء الشهادات**	6
6.1	The Government may, at any time, substitute all or any part of the Lease Assets (such assets to be substituted, the **Substituted Assets**) by exercising its right (by delivery of a substitution notice to the Issuer) under the Sale and Substitution Undertaking (the **Sale and Substitution Undertaking**) to require the Issuer to accept a transfer from the Government, of new Sharia compliant assets (the **New Assets**) in exchange for the Issuer transferring the Substituted Assets to the Government. Any such substitution will be subject to: (i) the Government and the Issuer entering into a sale agreement (the form of which will be scheduled to the Sale and Substitution Undertaking) to give effect to the substitution of the Substituted Assets for the New Assets; and (ii) the value of the New Assets being not less than the value of the Substituted Assets. In addition, the Lessor and the Lessee	يجوز للحكومة في أي وقت استبدال كل أو أي جزء من أصول الإجارة عن طريق تسليم إشعار الاستبدال للمصدر بموجب تعهد البيع والاستبدال والذي تطلب الحكومة فيه قبول المصدر لنقل الأصول الجديدة والموافقة شرعاً في مقابل قيام الجهة المصدرة بنقل الأصول المستبدلة إلى الحكومة. ويخضع هذا التبديل إلى: (أ) دخول الحكومة والمصدر في اتفاقية البيع لإنفاذ استبدال الأصول الجديدة بالأصول القديمة؛ و (ب) قيمة الأصول الجديدة لا تقل عن قيمة الأصول القديمة. وبالإضافة إلى ذلك، سيقوم المصدر والحكومة بالدخول إلى اتفاقية الإجارة التكميلية.	6.1

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	shall enter into a Supplemental Lease Agreement.		
6.2	Following any purchase of Sukuk by the Government in the open market or otherwise, the Government shall be entitled to exercise its rights (by delivery of a cancellation notice to the Issuer) under the Sale and Substitution Undertaking to require the Issuer to cancel the relevant Sukuk so purchased in consideration of the transfer by the Issuer to the Government of a portion of the Lease Assets, the value of which is not greater than the aggregate face amount of the Sukuk so cancelled.	بعد أي عملية شراء للشهادات من قبل الحكومة في السوق المفتوحة أو غيرها – الحكومة لها ممارسة حقها (بعد تسليم إشعار الإلغاء للمصدر) وفقاً لتعهد البيع والاستبدال – ستطلب من المصدر إلغاء الشهادات ذات الصلة، وهذا الشراء يعد بمثابة نقل من المصدر للحكومة لجزء من الأصول المؤجرة، بقيمة لا تزيد عن القيمة الاسمية للشهادات الملغاة.	6.2

Sharia Supervisory Board Resolution: The Sharia Supervisory Board having reviewed the structure and Agreements/ Documentation is of the view that the subject Sukuk is in conformity with the provisions of Islamic Sharia. In-case of any amendments in legal documentations and prospectus of the subject Sukuk, the same has to be presented to Sharia Supervisory Board for review and approval.	**قرار هيئة الرقابة الشرعية:** راجعت هيئة الرقابة الشرعية هيكلة الصكوك ووثائقها، ورأت بأن هذه الصكوك تتوافق مع أحكام الشريعة الإسلامية. وفي حالة وجود أي تعديلات في الوثائق ونشرة الإصدار فيجب عرضها على هيئة الرقابة الشرعية للمراجعة والموافقة.
We seek Allah guidance and Allah knows the best.	نسأل الله تعالى التوفيق والله أعلم.

فضيلة الشيخ الدكتور سالم بن علي الذهب، رئيس الهيئة

فضيلة الشيخ الدكتور عبدالله بن مبارك العبري ، نائب الرئيس

فضيلة الشيخ الدكتور محمد بن علي الرواتي، عضواً

فضيلة الشيخ أحمد بن عوض الحسان ، عضواً

فضيلة الشيخ الدكتور محمد أمين قطان، عضواً

بتاريخ 28 أكتوبر 2020

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MAISARAH

فتوى هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية

بسم الله الرحمن الرحيم

الحمد لله رب العالمين. والصلاة والسلام على أشرف الأنبياء والمرسلين وعلى آله وصحبه أجمعين.

Pronouncement of the Maisarah Islamic Banking Services Sharia Supervisory Board

In the name of Allah, the Most Gracious, the Most Merciful
All praise is due to Allah, the Cherisher of the world
Peace be upon the Prophet of Allah, on his family and all his companions

الشركة العمانية للصكوك السيادية ش م ع م
برنامج إصدار الصكوك بالريال العماني للإصدار الخامس

OMAN SOVEREIGN SUKUK S.A.O.C.

Omani Rial Sukuk Issuance Programme - 5th Series

	The Maisarah Islamic Banking Services Sharia Supervisory Board (the SSB) has been presented with the below described structure and documentation for the purpose of Sukuk issuance.	عرضت على هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية الهيكلة المذكورة أدناه والوثائق لأجل إصدار الصكوك.	
1	**Introduction**	**المقدمة**	**1**
1.1	Oman Sovereign Sukuk S.A.O.C. (the **Issuer**), an Omani closed joint stock company wholly owned by or on behalf of the Government, will issue Sukuk (the **Sukuk**) to investors (the **Sukuk holders**) and collect the proceeds (the **Proceeds**) from the Sukuk holders.	ستصدر الشركة العمانية للصكوك السيادية (**المصدر**) وهي شركة مساهمة عمانية مقفلة بسلطنة عمان مملوكة بالكامل للحكومة أو من ينوب عن الحكومة شهادات صكوك (**الصكوك**) للمستثمرين (حملة الصكوك) وتجمع مساهمات الصكوك من حملة الصكوك.	1.1
1.2	The Issuer, in its capacity as trustee will, pursuant to a Master Declaration of Trust (the Declaration of Trust), declare a trust in favour of the Sukuk holders over the Proceeds, the trustee's rights, title, interest and benefit in, to and under the Lease Assets as well as the Transaction Documents and the monies standing to the credit of the Transaction Account(s).	سيعلن المصدر بوصفه أميناً وفقاً لسند العهدة الرئيسي (سند العهدة) عن وجود العهدة لصالح حملة الصكوك على المساهمات وحقوق الأمين والملكية والمصلحة والمنفعة على أصول الإجارة بالإضافة إلى اتفاقيات المعاملة والنقود التي ستدفع إلى حسابات المعاملة.	1.2
2	**Purchase of the Lease Assets**	**شراء أصول الإجارة**	**2**

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2.1	A Master Purchase Agreement will be entered into between Oman Sovereign Sukuk S.A.O.C. (in its independent capacity as Trustee, Purchaser) and the Government (in its capacity as Seller).	ستدخل الشركة العمانية للصكوك السيادية في اتفاقية الشراء الرئيسية (بصفتها أمينا ومشتريا) مع الحكومة (بصفتها بائعا).	2.1
2.2	On the issue date (the **Issue Date**), the Issuer will use the Sukuk Proceeds to purchase from the Government (the **Seller**), pursuant to a Supplemental Purchase Agreement (the **Purchase Agreement**), a [•] per cent. undivided ownership interest in the Government's 60.76 per cent. undivided ownership interest in the plot of logistics land (the **Land**) located in Barka with Commercial Plot Number 3-07-001-01-001 and as more particularly described in the extract provided by the Sultanate of Oman Ministry of Housing. The title of the Ijarah property will remain with the Government. However ownership interest will be transferred to purchaser upto the amount of Sukuk proceeds.	بتاريخ الإصدار (**تاريخ الإصدار**)، سيستخدم المصدر مساهمات الصكوك للشراء من الحكومة (**البائع**) وفقاً لاتفاقية الشراء التكميلية (**اتفاقية الشراء**) نسبة ( ) % حصة مشاعة في قطعة الأرض المملوكة للحكومة حيث تتملك الحكومة 60.76% حصة مشاعة في قطعة الأرض اللوجستية (**الأرض**) الواقعة بمدينة بركاء المسجلة برقم تجاري 3-07-001-01-001 وهي مبينة بالتفصيل في الملخص الذي زودته وزارة الإسكان بسلطنة عمان. ستبقى ملكية أصول الإجارة باسم الحكومة ولكن ستنتقل ملكيتها شرعاً إلى المشتري (حملة الصكوك) بموجب عقد البيع إلى حد مبلغ مساهمات الصكوك.	2.2
3	**Lease of the lease Asset**	**تأجير أصول الإجارة**	**3**
3.1	A Master Lease Agreement will be entered into between Oman Sovereign Sukuk S.A.O.C. (in its independent capacity as Lessor) and the Government (in its capacity as Lessee).	سوف تدخل الشركة العمانية للصكوك السيادية في اتفاقية الإيجار الرئيسية (بصفتها مؤجرا) مع الحكومة (بصفتها مستأجرا).	3.1
3.2	On the Issue Date, the Issuer will lease the Lease Assets (in such capacity, the **Lessor**) to the Government (in such capacity, the **Lessee**) pursuant to a Supplemental Lease Agreement (hereinafter will be referred to as the **Lease Agreement**). The Lease Agreement will specify the Lessee's intentions with respect to the Lease Assets which are currently to integrate the Land for development by means of the integration of the plot of land representing the Lease Asset into the industrial zone of Barka for the use	في تاريخ الإصدار، سيقوم المصدر (بصفته مؤجرا) بتأجير أصول الإجارة إلى الحكومة (بصفتها مستأجرا) بموجب عقد إيجار تكميلي (**عقد الإيجار**). وستحدد اتفاقية الإيجار غرض المستأجر فيما يتعلق بأصول الإجارة حيث سيتم تطوير مشاريع استراتيجية على الأرض لتكون مدينة بركاء منطقة صناعية لاستخدامها بدون تحديد كميناء جاف، وميدان الأمداد والتجهيز وخطة التطوير الأخرى (في كل حالة، بهدف إنشاء أنشطة تجارية مدرة للدخل على الأرض) حسب ما قرره المستأجر من وقت لأخر وفق الضوابط الشرعية.	3.2

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	without limitation as a dry port and logistics park and any other development plan (in each case, with the objective of creating revenue generating commercial activities on such land) as determined by the Lessee from time to time in accordance with principles of Shari'a.		
3.3	Lessee will make rental payments at regular intervals (Rental Period) equal to the rent amount as agreed in the Lease Agreement between the contracting parties.	يقوم المستأجر بتسديد دفعات الإيجار على فترات منتظمة (**فترة تأجير**) يساوي مبلغ الإيجار المتفق عليه في اتفاقية الإيجار بين الأطراف.	3.3
3.4	The rent paid by the Lessee to the Lessor in respect of each rental period is intended to be sufficient to fund the periodic distribution amount for the corresponding period payment to the Sukukholders. For the avoidance of doubt, upon the occurrence of a Total Loss Event the Lease Agreement will terminate and no further rentals shall be payable. If the Lease Assets are replaced within 30 days after the occurrence of a Total Loss Event in accordance with the Servicing Agency Agreement, a new Supplemental Lease Agreement shall be entered into in respect of the replacement Lease Assets.	سيكون الإيجار المستحق الدفع من المستأجر للمؤجر مساوياً لمبالغ التوزيع الدوري للفترة المقابلة المستحقة بموجب الصكوك. تجنبا للشك، فإنه في حال حدوث التلف الكلي فإن عقد الإجارة ينفسخ، وتتوقف دفعات الإجارة حينها. إذا تم تبديل أصول الإجارة خلال 30 يوماً من حدوث التلف الكلي حسب اتفاقية وكالة الخدمات، سيتم تنفيذ اتفاقية الإيجار التكميلية الجديدة لتبديل أصول الإجارة.	3.4
3.5	Under the Lease Agreement, the Lessee will, at its own cost and expense, be responsible for all ordinary operational maintenance and repair in respect of the Lease Assets and the Lessor will be responsible for: (i) all major maintenance and structural repair in respect of the Lease Assets; (ii) the payment of any proprietorship or other applicable taxes in respect of the Lease Assets; and (iii) insuring the Lease Assets (such obligations of the Lessor, the **Lessor Obligations**).	بموجب اتفاقية الإجارة سيكون المستأجر مسؤولاً عن نفقات الصيانة الدورية العادية للأصول، بينما سيكون المؤجر مسؤولاً عما يلي: (أ) نفقات الصيانة الأساسية فيما يتعلق بأصول الإجارة ؛ و (ب) دفع الضرائب فيما يتعلق بأصول الإجارة ؛ و (ج) تأمين أصول الإجارة.	3.5

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4	**Servicing Agent**	**وكالة الخدمة**	**4**
4.1	The Lessor will, pursuant to a Servicing Agency Agreement (the **Servicing Agency Agreement**), appoint the Government as its agent (in such capacity, the **Agent**) to provide certain services in respect of the Lease Assets.	المؤجر بموجب اتفاقية وكالة الخدمات (**اتفاقية وكالة الخدمات**) سيعين الحكومة وكيل خدمات (بصفتها **وكيلا**) للقيام بخدمات معينة فيما يتعلق بأصول الإجارة.	4.1
4.2	The Agent will undertake that it will perform the Lessor Obligations on behalf of the Lessor. In the first instance, it will use its reasonable endeavors to obtain such insurance on a Takaful basis if such Takaful insurance is available on commercially viable terms.	سيتعهد الوكيل بأداء التزامات المؤجر نيابة عن المؤجر. سيبذل الوكيل قصارى جهده للحصول على تغطية تكافلية مناسبة إذا توافرت حسب الشروط التجارية المطلوبة.	4.2
4.3	The Lessor and the Agent will agree in the Service Agency Agreement that the Lessor shall reimburse the Agent each Service Charge Amount invoiced to the Lessor. For these purposes, **Service Charge Amount** means all payments made by the Agent during the relevant rental period in respect of the services undertaken by it under the Servicing Agency Agreement.	سيتفق المؤجر والوكيل بموجب اتفاقية وكالة الخدمات على أن المؤجر سيقوم بتعويض النفقات التي تكبدها الوكيل في سبيْل تنفيذ التزاماته. لهذه الأغراض، **مبلغ تكاليف الخدمة** يعني كل الدفعات التي تكبدها الوكيل خلال فترة تأجير ذات صلة فيما يتعلق بالخدمات التي قام بها بموجب اتفاقية وكالة الخدمات.	4.3
4.4	The Agent will be required under the Servicing Agency Agreement to ensure that the Lease Assets are properly insured (under Takaful) against a Total Loss Event in a covered amount, at all times, at least equal to the Full Reinstatement Value.	بموجب اتفاقية وكالة الخدمات، يتطلب من الوكيل أن يتأكد من أن أصول الإجارة تمت تغطيتها بالتأمين التكافلي ضد حال حدوث التلف الكلي بمبلغ كامل في كل وقت، على الأقل يساوي قيمة الإسترداد الكلي.	4.4
5	**Redemption of the Sukuk**	**استرداد الصكوك**	**5**
5.1	Upon the occurrence of a termination event, or upon the scheduled maturity of the Sukuk, the Issuer will be entitled to exercise a purchase undertaking (the **Purchase Undertaking**) granted by the	عند وقوع حدث الإنهاء أو عند الاستحقاق المقرر للصكوك، يحق للمصدر ممارسة تعهد الشراء الممنوح من الحكومة (بصفتها **ملتزما**) لصالح الجهة المصدرة بعد تسلم إشعار ممارسة الحق إلى الحكومة بحيث أن المصدر يستحق طلب الملتزم لشراء أصول الإجارة	5.1

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	Government (in such capacity, the **Obligor**) unilaterally in favour of the Issuer by delivery of an exercise notice to the Government pursuant to which the Issuer will be entitled to require the Obligor to purchase the Lease Assets at a price (the **Exercise Price**) equal to the aggregate of: (i) the aggregate face amount of the Sukuk then outstanding; (ii) all accrued but unpaid periodic distribution amounts (if any) relating to the Sukuk; (iii) any amounts payable by the Trustee under the Transaction Documents; and (iv) any other amounts payable on redemption of the Sukuk. A similar mechanism will apply in respect of a full or partial redemption following the exercise of a Sukuk holder put right.	بسعر (**سعر الممارسة**) يساوي الإجمالي الآتي: (أ) إجمالي القيمة الاسمية المتبقي؛ (ب) جميع مبالغ التوزيع الدورية غير المدفوعة (إن وجدت) والمرتبطة بالشهادات ؛ (ج) أي مبلغ مستحق الدفع من قبل الأمين بموجب اتفاقيات المعاملة؛ و (د) أي مبلغ مستحق الدفع لاسترداد الصكوك. سيتم تنفيذ الطريقة المماثلة للاسترداد الكلي أو الجزئي.	
6	**Substitution of the Lease Assets, Cancellation of the Sukuk and Call Rights**	**تبديل أصول الإجارة وإلغاء الشهادات**	6
6.1	The Government may, at any time, substitute all or any part of the Lease Assets (such assets to be substituted, the **Substituted Assets**) by exercising its right (by delivery of a substitution notice to the Issuer) under the Sale and Substitution Undertaking (the **Sale and Substitution Undertaking**) to require the Issuer to accept a transfer from the Government, of new Sharia compliant assets (the **New Assets**) in exchange for the Issuer transferring the Substituted Assets to the Government. Any such substitution will be subject to: (i) the Government and the Issuer entering into a sale agreement (the form of which will be scheduled to the Sale and Substitution Undertaking) to give effect to the substitution of the Substituted Assets for the New Assets; and (ii) the value of the New Assets being not less than the value of the Substituted Assets. In addition, the Lessor and the Lessee	يجوز للحكومة في أي وقت استبدال كل أو أي جزء من أصول الإجارة عن طريق تسليم إشعار الاستبدال للمصدر بموجب تعهد البيع والاستبدال والذي تطلب الحكومة فيه قبول المصدر لنقل الأصول الجديدة والموافقة شرعاً في مقابل قيام الجهة المصدرة بنقل الأصول المستبدلة إلى الحكومة. ويخضع هذا التبديل إلى: (أ) دخول الحكومة والمصدر في اتفاقية البيع لإنفاذ استبدال الأصول الجديدة بالأصول القديمة؛ و (ب) قيمة الأصول الجديدة لا تقل عن قيمة الأصول القديمة. وبالإضافة إلى ذلك، سيقوم المصدر والحكومة بالدخول إلى اتفاقية الإجارة التكميلية.	6.1

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	shall enter into a Supplemental Lease Agreement.		
6.2	Following any purchase of Sukuk by the Government in the open market or otherwise, the Government shall be entitled to exercise its rights (by delivery of a cancellation notice to the Issuer) under the Sale and Substitution Undertaking to require the Issuer to cancel the relevant Sukuk so purchased in consideration of the transfer by the Issuer to the Government of a portion of the Lease Assets, the value of which is not greater than the aggregate face amount of the Sukuk so cancelled.	بعد أي عملية شراء للشهادات من قبل الحكومة في السوق المفتوحة أو غيرها – الحكومة لها ممارسة حقها (بعد تسليم إشعار الإلغاء للمصدر) وفقاً لتعهد البيع والاستبدال – ستطلب من المصدر إلغاء الشهادات ذات الصلة، وهذا الشراء يعد بمثابة نقل من المصدر للحكومة لجزء من الأصول المؤجرة، بقيمة لا تزيد عن القيمة الاسمية للشهادات الملغاة.	6.2
	Sharia Supervisory Board Resolution: The Sharia Supervisory Board having reviewed the structure and Agreements/ Documentation is of the view that the subject Sukuk is in conformity with the provisions of Islamic Sharia. In-case of any amendments in legal documentations and prospectus of the subject Sukuk, the same has to be presented to Sharia Supervisory Board for review and approval.	**قرار هيئة الرقابة الشرعية:** راجعت هيئة الرقابة الشرعية هيكلة الصكوك ووثائقها، ورأت بأن هذه الصكوك تتوافق مع أحكام الشريعة الإسلامية. وفي حالة وجود أي تعديلات في الوثائق ونشرة الإصدار فيجب عرضها على هيئة الرقابة الشرعية للمراجعة والموافقة.	
	We seek Allah guidance and Allah knows the best.	نسأل الله تعالى التوفيق والله أعلم.	

فضيلة الشيخ الدكتور سالم بن علي الذهب، رئيس الهيئة

فضيلة الشيخ الدكتور عبدالله بن مبارك العبري ، نائب الرئيس

فضيلة الشيخ الدكتور محمد بن علي اللواتي، عضواً

فضيلة الشيخ أحمد بن عوض الحسان ، عضواً

فضيلة الشيخ الدكتور محمد أمين قطان، عضواً

بتاريخ 28 أكتوبر 2020

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Date : 28/10/2020

فتوى هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية

بسم الله الرحمن الرحيم

الحمد لله رب العالمين. والصلاة والسلام على أشرف الأنبياء والمرسلين وعلى آله وصحبه أجمعين.

Pronouncement of the Maisarah Islamic Banking Services Sharia Supervisory Board

In the name of Allah, the Most Gracious, the Most Merciful
All praise is due to Allah, the Cherisher of the world
Peace be upon the Prophet of Allah, on his family and all his companions

فندق المدينة ش.م.م.
صكوك حديقة المدينة ش.م.م. – إصدار الشهادات

City Hotel LLC
Hadiqah Al Madina Sukuk LLC - Trust Certificates Issuance

The Maisarah Islamic Banking Services Sharia Supervisory Board (the SSB) has been presented with the below described structure and documentation for the purpose of Sukuk issuance.		عرضت على هيئة الرقابة الشرعية لميسرة للخدمات المصرفية الإسلامية الهيكلة والمستندات المذكورة أدناه لأجل إصدار الصكوك.	
<u>First: Sukuk Structure</u>		أولا: هيكلة الصكوك	
1	Hadiqah Al Madina LLC ("Issuer SPV") issues *sukuk* certificates (**Certificates**), which represent an undivided beneficial ownership interest in underlying assets usufruct. The Certificates also represent a right against the Issuer SPV to receive periodic distribution amounts and the dissolution amount.	تقوم حديقة المدينة ش.م.م. (المصدر/ شركة أغراض خاصة) بإصدار شهادات الصكوك (**الشهادات**)، والتي تمثل حصة ملكية مستحقة غير مجزأة في منفعة الأصول الأساسية. تمثل الشهادات أيضاً حقاً ضد المصدر في الحصول على مبالغ التوزيع الدورية ومبلغ التصفية.	1
2	The investors subscribe for the Certificates and pay the proceeds to Issuer SPV (**Issuance Amount**). The Issuer SPV declares a trust (**Trust**) over, inter alia, the proceeds (and any assets acquired using the proceeds) and thereby acts as a trustee (**SPV Trustee**) on behalf of the investors in the Certificates.	يشترك المستثمرون في الشهادات ويدفعون المساهمات إلى المصدر (**مبلغ الإصدار**). يعلن المصدر عن وجود الأمانة (**الأمانة**) ضمن أمور أخرى، والمساهمات (وأي أصول تم الحصول عليها باستخدام المساهمات) وبالتالي يعمل كأمين (**الأمين**) نيابة عن المستثمرين في الشهادات.	2
3	On the issuance date, City Hotel LLC ("City Hotel") will enter into a purchase agreement (**Asset Purchase Agreement**) with the SPV Trustee, pursuant to which City Hotel agrees to sell, and the SPV Trustee agrees to	في تاريخ الإصدار، سوف يدخل فندق المدينة (فندق المدينة) في اتفاقية شراء (**اتفاقية شراء الأصول**) مع الأمين، بموجبه يوافق فندق المدينة على بيع، ويوافق الأمين على شراء، بعض الأصول (**أصول الإجارة**) من فندق المدينة، بصفته (أي الأمين) أصيلاً أو وكيل البيع.	3

	purchase, certain assets[1] (**Ijara Assets**) from City Hotel acting as either principal or as sale agent. As Maisarah Islamic Banking Services (**MIBS**) will on the issuance date own a proportion of the Ijara Assets under and pursuant to certain diminishing musharaka arrangements entered into by MIBS, MIBS will appoint City Hotel as its agent, under and pursuant to an agency agreement to sell, on behalf of MIBS, MIBS's share in the Ijara Assets to the SPV Trustee. Some of the Ijara Assets will be legally owned by Sorouh Al-Madina Real Estate Investment LLC and Salem Mohiyaddin Bin Saif & Bros. Trading & Contracting Co. LLC, each of which will enter into a sale agency agreement agreeing to the sale of the relevant Ijara Assets and appointing City Hotel as its sale agent for the sale of the relevant Ijara Assets to the SPV Trustee.	وبما أن ميسرة للخدمات المصرفية الإسلامية سوف تمتلك في تاريخ الإصدار نسبة من أصول الإجارة بموجب ووفقاً لترتيبات المشاركة المتناقصة التي أبرمتها - سابقاً- ميسرة للخدمات المصرفية الإسلامية مع فندق المدينة، فإن ميسرة للخدمات المصرفية الإسلامية سوف تقوم بتعيين فندق المدينة كوكيل لها، بموجب وعملاً بأحكام اتفاقية الوكالة للبيع. ونيابة عن ميسرة للخدمات المصرفية الإسلامية، يبيع فندق المدينة حصة ميسرة للخدمات المصرفية الإسلامية في أصول الإجارة إلى الأمين. بعض أصول الإجارة سيملكها كل من صروح المدينة للاستثمارات العقارية ش.م.م. وشركة سالم محي الدين بن سيف وإخوانه للتجارة والمقاولات ش.م.م، بحيث سيدخل كل واحد منهما منفرداً في اتفاقية وكالة البيع لاتفاق في بيع أصول الإجارة ذات الصلة، وتعيين فندق المدينة كوكيل البيع، لبيع أصول الإجارة ذات الصلة إلى الأمين.	
4	Under and pursuant to the Asset Purchase Agreement, the SPV Trustee will pay the purchase price to City Hotel as consideration for its purchase of the Ijara Assets in an amount equal to the relevant Issuance Amount. City Hotel will subsequently pay a proportion of this purchase price to MIBS as consideration for the sale by MIBS of its ownership interests in the Ijara Assets. City Hotel and each other legal owner of an Ijara Asset prior to the Issue Date will declare that it will continue to hold the registered title to the Ijara Assets as the agent of the SPV Trustee (acting on behalf of the Certificate holders). It is intended that once the MIBS mortgage over the relevant Ijara Assets has been released, City Hotel will deliver constructive possesion to the SPV Trustee by issuing a letter confirming the same.	بموجب ووفقاً لاتفاقية شراء الأصول، سيدفع الأمين سعر الشراء إلى فندق المدينة، مقابل شراء أصول الإجارة، بمبلغ يساوي مبلغ الإصدار ذي الصلة. سيدفع فندق المدينة بعد ذلك نسبة من سعر الشراء هذا إلى ميسرة للخدمات المصرفية الإسلامية كاعتبار لبيع ميسرة للخدمات المصرفية الإسلامية لمصالح ملكيتها في أصول الإجارة. قبل تاريخ الإصدار، سيعلن فندق المدينة وكل واحد من المالكين الأخرين أنه سيستمر في الاحتفاظ بحق الملكية المسجل في أصول الإجارة بصفته وكيل الأمين (بالنيابة عن حاملي الشهادات). ويقصد أيضاً على أنه بمجرد إبراء ميسرة للخدمات المصرفية الإسلامية من الرهن العقاري على أصول الإجارة، فإن فندق المدينة سيسلم القبض الحكمي إلى الأمين من خلال إصدار خطاب وسيتم الاعتراف بها من قبل الأمين.	4
5	The SPV Trustee will lease the Ijara Assets to City Hotel under a lease (*ijara*) arrangement (**Lease Agreement**). The lease term shall be equal to the tenor of the Certificates. City	سيقوم الأمين بتأجير أصول الإجارة إلى فندق المدينة بموجب عقد إيجار (**عقد الإيجار**). يجب أن تكون مدة عقد الإيجار مساوية لمدة الشهادات. وسيتعهد فندق المدينة	5

[1] Note: The Ijara Assets are anticipated to be 3 properties which are completed, one located in Muscat and two located in Salalah. Two of the Ijara Assets are currently mortgaged in favour of Maisarah to secure Diminishing Musharaka obligations of members of the Salem Mohiyaddin group to Maisarah. In this regard, Maisarah will provide a written notice agreeing to the sale of Maisarah's share in the Ijara Assets and undertaking to release the relevant mortgages once the relevant debt has been discharged.

	Hotel will undertake under the Lease Agreement to ensure that the activities of carried out within and in relation to the Ijara Assets shall be Shari'a compliant.	بموجب عقد الإيجار للتأكد أن تكون الأنشطة المنفذة داخل أصول الإجارة وفيما يتعلق بها متوافقة مع أحكام الشريعة الإسلامية.	
6	City Hotel (as Lessee) makes rental payments at regular intervals (each a **Rental Period**) to the SPV Trustee (as Lessor). The amount of each rental is equal to the periodic distribution amount payable for the corresponding period under the Certificates. It is anticipated that this amount will be calculated by reference to a fixed rate (**Rental Rate**). The rental amount for each Rental Period (each a **Rental Amount**) will be calculated in accordance with the following formula: A. (i) Aggregate face value of the Certificates *multiplied by* (ii) the Rental Rate *multiplied by* (iii) the number of days in the relevant Rental Period divided by 360; *plus* B. any Supplemental Rental (as defined below).	يقوم فندق المدينة (بصفته مستأجراً) بتسديد دفعات الإيجار على فترات منتظمة (كل **فترة تأجير**) إلى الأمين (بصفته مؤجراً). يساوي مبلغ كل إيجار مبلغ التوزيع الدوري المستحق للفترة المقابلة بموجب الشهادات. من المتوقع أن يتم احتساب هذا المبلغ بالرجوع إلى سعر ثابت (**معدل الإيجار**). سيتم احتساب مبلغ الإيجار لكل فترة تأجير (كل **مبلغ إيجار**) وفقاً للصيغة التالية: أ- (1) القيمة الاسمية الإجمالية للشهادات مضروبة في (2) معدل الإيجار مضروباً في (3) عدد الأيام في فترة الإيجار ذات الصلة مقسوماً على 360؛ زائداً ب- أي تأجير إضافي (على النحو المحدد أدناه).	6
7	Issuer SPV pays each periodic distribution amount to the investors using the Rental Amounts received from City Hotel (as Lessee).	يقوم المصدر بدفع كل مبلغ توزيع دوري للمستثمرين باستخدام مبالغ الإيجار المستلمة من فندق المدينة (بصفته مستأجراً).	7
8	Upon: (i) an event of default or at maturity (at the option of the SPV Trustee under a unilateral undertaking (**Purchase Undertaking**) granted by City Hotel as Obligor); or (ii) the exercise of an optional redemption (if applicable) or the occurrence of a tax event (both, at the option of City Hotel under a unilateral undertaking (**Sale Undertaking**) granted by the SPV Trustee), the SPV Trustee will sell, and City Hotel will buy, the relevant Ijara Assets at the	في حالة: أ- حدوث التخلف عن السداد أو عند الاستحقاق (بناءً على خيار الأمين بموجب تعهد من طرف واحد (**تعهد الشراء**) الممنوح من فندق المدينة بصفته ملتزماً ؛ أو ب- ممارسة الاسترداد الاختياري (إن وجدت) أو وقوع حدث ضريبي (كلاهما، في خيار فندق المدينة بموجب التعهد من طرف واحد (**تعهد البيع**) ممنوح من قبل الأمين)، سيقوم الأمين بالبيع، وسيقوم فندق المدينة بشراء أصول الإجارة ذات الصلة بسعر الممارسة المعمول به. سيتم تنفيذ هذا البيع، عقب ممارسة تعهد الشراء أو تعهد البيع،	8

	applicable Exercise Price. This sale will be effected, following the exercise of the Purchase Undertaking or Sale Undertaking, by the SPV Trustee and City Hotel entering into a sale and purchase agreement pursuant to which the SPV Trustee will sell and City Hotel will purchase the Ijara Assets at the relevant Exercise Price.	من خلال الأمين وفندق المدينة اللذين يبرمان اتفاقية بيع وشراء، وبموجبها سيقوم الأمين بالبيع وسيشتري فندق المدينة أصول الإجارة بسعر الممارسة المعني.	
9	The Exercise Price will be calculated in accordance with the following formula: A. Aggregate face value of the Certificates; plus B. an amount equal to all accrued but unpaid Rental Amount as at such date; plus C. an amount equal to any other amounts that might be outstanding under the Certificates.	سيتم احتساب سعر الممارسة وفقاً للصيغة التالية: أ- إجمالي القيمة الاسمية للشهادات؛ زائداً ب- مبلغ يساوي كامل مبلغ الإيجار المستحق ولكن غير المدفوع في هذا التاريخ؛ زائداً ج- مبلغ يساوي أي مبالغ أخرى قد تكون مستحقة بموجب الشهادات.	9
10	Issuer SPV pays the dissolution amount to the investors under the Certificates using the Exercise Price it has received from City Hotel.	يقوم المصدر بدفع مبلغ التصفية للمستثمرين بموجب الشهادات باستخدام سعر الممارسة الذي تلقته من فندق المدينة.	10
11	The SPV Trustee and City Hotel will enter into a service agency agreement **(Service Agency Agreement)** whereby the SPV Trustee will appoint City Hotel as its Servicing Agent to carry out certain of its obligations under the lease arrangement, namely the obligation to undertake any major maintenance, and payment of taxes in connection the Ijara Assets. The Servicing Agent will undertake to procure that appropriate takaful cover is obtained in relation to the Ijara Assets, save that if takaful is not available at a commercially viable cost then the Servicing Agent shall be permitted to procure that insurance coverage is obtained instead. If, as at the issuance date, the Ijara Assets are purchased by the SPV Trustee with existing insurance coverage then the obligation of the Servicing Agent to procure takaful shall only apply once the term of such insurance has expired.	سيدخل الأمين وفندق المدينة في اتفاقية وكالة خدمة **(اتفاقية وكالة الخدمة)**، حيث يعيّن الأمين فندق المدينة وكيلاً للخدمة لديه لتنفيذ بعض التزاماته بموجب ترتيب عقد الإيجار، أي الالتزام بإجراء أي صيانة رئيسية، ودفع الضرائب فيما يتعلق بأصول الإجارة. وسيتعهد وكيل الصيانة بشراء تغطية تكافلية مناسبة فيما يتعلق بأصول الإجارة، إلا أنه إذا لم تكن التغطية التكافلية متاحة بتكلفة قابلة للتطبيق التجاري، فيُسمح لوكيل الصيانة بالتأكد من الحصول على تغطية تأمينية بدلاً من ذلك. إذا، كما في تاريخ الإصدار، تم شراء أصول الإجارة من قِبل الوكيل مع تغطية التأمينية الحالية، فإن التزام وكيل الخدمة بشراء التكافل لا يسري إلا بعد انتهاء مدة هذا التأمين. سيكون الأمين مسؤولاً عن دفع التكاليف والنفقات (**تكاليف الخدمة**) التي تكبدها وكيل الخدمة في سبيل تنفيذ التزاماته. إلى الحد الذي يطالب فيه فندق المدينة (بصفته وكيلاً للخدمة) بتكاليف الخدمة خلال فترة تأجير معينة، سيتم زيادة الإيجار لأصول الإجارة ذات الصلة خلال فترة التأجير اللاحقة بموجب ترتيب عقد الإيجار بمبلغ معادل	11

	The SPV Trustee will be responsible for paying costs and expense **(Servicing Costs)** incurred by the Servicing Agent in carrying out its obligations. To the extent that City Hotel (as Servicing Agent) claims Servicing Costs during a particular lease period the rental for the relevant Ijara Assets during the subsequent lease period under the lease arrangement will be increased by an equivalent amount **(Supplemental Rental)**. This Supplemental Rental due from City Hotel (as Lessee) will be set-off against the obligation of the SPV Trustee to pay the Servicing Costs. To the extent that City Hotel fails to discharge any of its obligations under the Service Agency Agreement in the manner required (including, without limitation, the obligation to adequately insure the Ijara Assets and procure, that in the event of a total loss event, takaful (or, if applicable, insurance) monies equal to the amount outstanding under the Certificates are not received within thirty (30) days), City Hotel shall be liable for any shortfall as a result of its failure to comply with its obligations as Servicing Agent up to an amount equal to that due and payable to the investors under the Certificates.	**(الإيجار الإضافي)**. سيتم تعويض هذا الإيجار الإضافي المستحق من فندق المدينة (بصفته مستأجراً) مقابل التزام الوكيل بدفع تكاليف الخدمات. في حال فشل فندق المدينة في الوفاء بأي من التزاماته بموجب اتفاقية وكالة الخدمة بالطريقة المطلوبة (بما في ذلك، على سبيل المثال وليس الحصر، الالتزام بتأمين أصول الإجارة وشرائها، والتحصيل (في حالة وقوع الخسارة الكاملة)، والتكافل (أو إذا وجد، التأمين) ولم يتم استلام مبالغ مساوية للمبلغ المستحق بموجب الشهادات خلال ثلاثين (30) يوماً)، يكون فندق المدينة مسؤولاً عن أي نقص نتيجة لفشله في الامتثال لالتزاماته كوكيل خدمة بحد يصل إلى مبلغ يساوي ذلك المبلغ المستحق السداد للمستثمرين بموجب الشهادات.	
12	City Hotel will have the ability to substitute any of the relevant Ijara Assets for new assets **(Replacement Assets)**. This will be achieved by the SPV Trustee granting to City Hotel a substitution undertaking **(Asset Substitution Undertaking)** pursuant to which City Hotel may, at its option, elect to substitute certain of the existing Ijara Assets with Replacement Assets, provided that those Replacement Assets are of at least the same value as the assets being replaced (as determined by an independent valuer).	سيكون لدى فندق المدينة القدرة على استبدال أي من أصول الإجارة ذات الصلة بأصول جديدة **(استبدال الأصول)**. وسوف يتحقق ذلك من خلال قيام الأمين بمنح فندق المدينة تعهداً بديلًا **(تعهد استبدال الأصول)** بموجبه يجوز لفندق المدينة، بناءً على خياره، اختيار استبدال بعض أصول الإجارة الحالية بأصول بديلة، بشرط أن تكون هذه الأصول البديلة على الأقل بنفس قيمة الأصول التي يتم استبدالها (كما يحددها مقيم مستقل).	12
13	Muscat Clearing and Depository Company S.A.O.C (**MCD**) will be appointed as the agent of the SPV Trustee under and pursuant to an agency agreement to perform certain administrative functions on behalf of the Trustee SPV, such as acting as paying agent	سيتم تعيين مسقط للمقاصة والإيداع ش.م.ع.م. وكيلاً للأمين بموجب ووفقاً لاتفاقية الوكالة، لأداء وظائف إدارية معينة بالنيابة عن الأمين، مثل القيام بدور وكيل	13

	of the SPV Trustee to facilitate payments to be made by the SPV Trustee to Certificateholders.	الدفع للأمين من أجل تسهيل المدفوعات التي يتعين أن يقوم بها الأمين تجاه حملة الشهادات.	
14	The payment obligations of City Hotel under the transaction documents listed in paragraph below will be guaranteed by the Personal Guarantors (the form of the Guarantee is set out in the Declaration of Trust). A mortgage will also be created over the Ijara Assets.	سيتم ضمان التزامات السداد الخاصة بفندق المدينة بموجب مستندات المعاملة المدرجة في الفقرة أدناه من قبل الضامنين الشخصيين (سيتم تحديد نموذج الضمان في سند العهدة). وسيتم إنشاء الرهن على أصول الإجارة.	14
	<u>Second: The Agreements/ Documentation</u>	**ثانيا: الاتفاقيات/ الوثائق**	
	The documentation that will be required to complete the issuance is listed below: 1. Asset Purchase Agreement 2. Registrar Agreement 3. Lease Agreement 4. Service Agency Agreement 5. Purchase Undertaking 6. Sale Undertaking 7. Substitution Undertaking 8. Declaration of Trust 9. Security Agency Agreement 10. Salalah Complex Sale Agency Agreement 11. Salem Co Sale Agency Agreement 12. Maisarah Sale Agency Agreement 13. Paying Agent Agreement 14. Each Guarantee	فيما يلي الوثائق التي تكون مطلوبة لإكمال الإصدار: 1. اتفاقية شراء الأصول 2. اتفاقية أمين السجل 3. اتفاقية الإيجار 4. اتفاقية وكالة الخدمات 5. التعهّد بالشراء 6. التعهّد بالبيع 7. التعهّد بالاستبدال 8. سند العهدة 9. اتفاقية وكالة الضمان 10. اتفاقية وكالة بيع مجمع صلالة 11. اتفاقية وكالة البيع بالنيابة عن شركة سالم 12. اتفاقية وكالة البيع بالنيابة عن ميسرة 13. اتفاقية وكيل الدفع 14. كل ضمان	
	The Sharia Supervisory Board having reviewed the structure and Agreements/ Documentation in Arabic/English languange is of the view that the subject Sukuk is in conformity with the provisions of Islamic Sharia. In-case of any amendments in	لقد راجعت هيئة الرقابة الشرعية هيكلة الصكوك ومستنداتها باللغة العربية/ اللغة الإنجليزية، ورأت بأن هذه الصكوك تتوافق مع أحكام الشريعة الإسلامية. في حالة وجود أي تعديلات في	

legal documentations and prospectus of the subject Sukuk, the same has to be presented to Sharia Supervisory Board for review and approval.	المستندات ونشرة الاكتتاب فيجب عرضها على هيئة الرقابة الشرعية للمراجعة والموافقة.
We seek Allah guidance and Allah knows the best.	نسأل الله تعالى التوفيق والله أعلم.

فضيلة الشيخ الدكتور سالم بن علي الذهب، رئيس الهيئة

فضيلة الشيخ الدكتور عبدالله بن مبارك العبري ، نائب الرئيس

فضيلة الشيخ الدكتور محمد بن على اللواتي، عضواً

فضيلة الشيخ أحمد بن عوض الحسان ، عضواً

فضيلة الشيخ الدكتور محمد أمين قطان، عضواً

Date: April 13, 2020

SHARI'A SUPERVISORY **BOARD MEMBERS**

Name of Chairman: Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab
Basis of Membership: Chairman of Shari'a Supervisory Board
No. of other Directorships held: None

Name of Director:
Sheikh Dr. Abdullah bin Mubarak Al Abri

Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan

Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati

Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Dr. Mohammad Ameen Ali Qattan

Basis of Membership:
Member

No. of other Directorships held: None

MANAGEMENT
TEAM

Kamal Hassan Al Maraza
Chief Maisarah Islamic Banking Officer

Nasser Said Al Bahantah
Chief Retail Banking Officer

Mohammed Iqbal Al Balushi
Head of Operations Support

Ismail Jama Bait Ishaq
Chief Financial Officer

Fawaz Rajab Al Ojaili
Head of Wholesale Banking

Yahya Mohamed Al Sharaiqi
Head of Treasury

Mohsin Shaik
Head of Investment
Banking & Capital Market

Abdul Hakim Osman
Head of Sharia Review

MANAGEMENT DISCUSSION & ANALYSIS REPORT

31st DECEMBER 2020

Maisarah Islamic Banking Services

The Islamic banking window of BankDhofar, Maisarah Islamic Banking Services was launched in 2013 offering superior Islamic banking experience and a wide range of Shariah-compliant range of products and services. Maisarah has grown tremendously over the years due to its continued commitment to providing exceptional Islamic banking services to its customers and fulfillment of long-term goals of its all stakeholders. Maisarah started with 1 branch in 2013 and now operates with a network of 10 branches strategically located across the Sultanate of Oman.

Maisarah has won many awards and accolades over the life span, however the major awards won during the year 2020 are:

- Best Islamic bank in Oman" - at the Middle East Banking Awards 2019 (EMEA Finance)
- "Fastest Growing Islamic Retail Bank- Oman 2020"- awarded by Global Banking and Finance Awards
- "Most Innovative Islamic Banking Window-Oman 2020" by Global Business Outlook

These awards are recognition of Maisarah's tremendous contribution towards the growth of Islamic Banking, its community, exceptional financial performance, and commitment to the highest level of customer satisfaction through its product and services.

The major units operating under Maisarah and Maisarah Financial performance as at December 2020 is highlighted below:

Maisarah Wholesale Banking Group

In order to provide focused financial solutions to its clienteles, Maisarah Wholesale Banking (MIBS WSB) is divided into two segments, i.e. Corporate Banking and SME. Each of these segments is managed by a dedicated team of highly trained and qualified business professionals.

MIBS WSB offers a wide range of innovative products, financial solutions and services stemming out of the financial needs of clients operating in different sectors, in a Sharia-compliant manner. The spectrum of the products and services is not limited to the market known Working Capital requirements, Term Finance, Project Finance and Trade Finance, but it also spans over financial advisory and syndicate arrangements as well. MIBS WSB products have been developed and managed by veteran Islamic Banking professionals with extensive experience and expertise in the field, through which MIBS was able to have a competitive edge in its offering to clients in public and private sector companies, governments, and quasi-governmental entities, and High Net-worth Individual.

MIBS WSB continues to strengthen its market position and recorded strong performance during 2020, despite the prevailing economic challenges due to pandemic, where it has successfully grown its corporate financing portfolio by 10% during the year, at the same time was able to keep focused on the quality, diversification, and health of the portfolio.

The strategy for the year was to continue diversifying the portfolio through increased geographic coverage and availability of additional products. Diversification was achieved through financing clients in Food industries, Logistics, Environmental and Recycling industries, Hotels & Tourism, Education, Quarry & Mining, Trading, Health, Oil & Gas, contracting and Manufacturing Sectors. The trusted experienced team of professionals and the branches network and the dedicated full-fledged Corporate Offices in Muscat, Salalah and the dedicated presence in Batinah region with a satisfied service level to all respected relations were among the top critical success factors for MIBS WSB.

The market response and demand has been encouraging, that MIBS WSB introduced new products which have been designed after careful consideration of the Omani market and business requirements, such as Salam Finance, Business accounts, Wakala Finance and inventory finance. These products have been providing further options and flexibility to the existing and potential clientele including Corporate, SME and even Individual entrepreneurs. MIBS optimistically look at 2021 as a year of economic rejuvenation and stabilization while overcoming the effects of the pandemic to mark another year of business success and growth for MIBS WSB.

Maisarah Retail Banking Services

Maisarah Retail Banking division continued its business with the existing network of 10 branches across Oman which include Azaiba, Salalah, Sohar, Birkat Al Mouz, Al Hail, New Salalah, Araqi, Sur, Greater Muttrah and Al Khuwair. In 2020, Al-Khuwair branch was relocated within Al-Khuwair with a better customer service area and parking space. During the year, products and services were enhanced with optimizing the production process as well as introducing new products to meet customer demand. With these strengths in hand in addition to the well acceptance that Maisarah received amongst the customers, Retail portfolio registered a growth of 2.37% in earning assets and 48.42% in liabilities despite the challenging market conditions.

During the year many initiatives were kicked off and rolled out to enhance the Mobile Banking Application, and Self-Service Network Channel. Maisarah introduced several innovative services in Mobile Banking App such as Standing Inductions for Self, Third Party, and Local Banks Transfers as well as Credit Card Payment Service. As part of the Self-Service Channel enhancement, Credit Card Payment, Cheque Book Request, Bill payment and top-up service were introduced on CDMs which helped customers to complete transactions easily from the nearest Maisarah CDM.

Maisarah continued to put its focus on excellence in service and to meet the same staff members went through intensive training programs on products, sharia, and soft skills.

To complement the efforts and as part of Maisarah efforts to increase the awareness of Islamic banking, social media awareness programs, as well as various Islamic banking digital conference initiatives, were sponsored and supported.

In addition, Maisarah Prize Account was also one of the key products that Maisarah has and which was well accepted amongst the customers. During the year, the transformation and digitalization was also given focus to improve the customer experience as well as improve user experience at the same time.

In 2021, Maisarah is poised to reach out to more customers. More attractive prize scheme, financial inclusion plans, branch and kiosk rollouts are all initiated to meet the demand. The team is also being structured more to focus on business as well as operations thereby enhancing the customer experience and differentiating with the service we offer.

Investment & Capital Markets

Investment Banking and Capital Markets focus besides investments is to create and distribute Shariah-compliant investment products in both equity and debt markets. The department provides a comprehensive range of services such as financial advisory, corporate finance, deal structuring mainly in Sukuk and private equity placements.

In 2020, Maisarah's Investment Banking & Capital Market was appointed as the Joint Lead Issue Manager and sole Collecting Bank for the Sovereign Sukuk Series 4 Omani Rial denominated issuance. The Sukuk issuance under the program generated firm orders more than circa OMR 220 million from a wide base of investors including Islamic institutions, banks, pension funds, corporates and HNIs and achieved an average yield rate of 5.88% p.a. It is noteworthy to mention that the Series 4 was oversubscribed by 1.26 times. Maisarah was also successful in achieving overall optimal pricing of 13 bps in excess of the base rate.

Maisarah was also appointed as the Joint Lead Issue Manager and Collecting Bank for Public Offer – Series 5 of OMR 25 Million Trust Certificates due 2022, under the Omani Rial Sukuk Issuance Program by Oman Sovereign Sukuk S.A.O.C. This is the first public offer for retail investors to participate in the Government's Sukuk program. The Sukuk was successful closed with OMR 25 million.

As a step forward, Maisarah's Investment banking & Capital Market team will continue to play an important role in the growth of Maisarah and also enhance the investment banking platform in Oman from the Shariah-compliant space.

Maisarah – Treasury Department

Maisarah's Treasury demonstrated firm progress throughout the year 2020, helping the overall entity reaffirm its commitment and position in the continuously growing Islamic Finance Sector in Oman. Maisarah Treasury through its admirable customer service strives to maintain existing revenue sources along with exploring new business opportunities by offering products and services that are tailored according to the market conditions and customer needs. This strategy has helped Maisarah Treasury become an active player in the Islamic Interbank space and sustain pressure because of deteriorating overall economic conditions in the country and around the globe due to the ongoing COVID19 crisis.

Maisarah Treasury continued to drive the wholesale and government deposit relationships, in line with the objective to strengthen and diversify funding sources that supported the overall asset growth. As a result, Maisarah Treasury ensured that both wholesale/retail customer financing and investments are positively funded to support the Bank's profitability.

Maisarah Treasury's plan to maintain regulatory ratios that comfortably exceed the threshold helped weather the effects of tight liquidity and overall market conditions during the year 2020. In addition, Maisarah Treasury also started dealing with new offshore counterparties that helped the Bank in meeting its required funding to ensure business continuity under stressful market conditions. Maisarah Treasury also participated in series 3 and series 4 Omani Rial based sovereign Sukuk auctions to support the successful close of the issuance and to contribute positively towards the economy.

Sharia Supervisory Board

Maisarah's Sharia Supervisory Board (SSB) is the highest authority in Maisarah to decide Sharia related matters. SSB, with the aim of upholding the highest Sharia standards held 4 meetings during the year under the Chairmanship of Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab, and membership of Sheikh Dr. Abdullah bin Mubarak Al-Abri, Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati, Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan, Sheikh Dr. Mohammad Ameen Ali Qattan.

The SSB reviewed and approved all new products, services, policies, procedures, manuals, and amendments in the existing products and services to ensure ongoing Sharia compliance and supervisory guidance. The SSB has been fulfilling its responsibility of playing an important role in ensuring Sharia governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Sharia Compliance and the Audit Department.

Sharia Compliance and Audit Department

A full-fledged Sharia Compliance and Audit department is working under the supervision of the Sharia Supervisory Board (SSB), in order to ensure that all the business operations conducted by Maisarah are in-line with the Sharia principles and as per the Sharia Governance framework mentioned in Islamic Banking Regulatory Framework (IBRF) of Central Bank of Oman comprises of Sharia Compliance Unit and Sharia Audit Unit.

To implement Sharia controls and ensure the highest standards of Sharia compliance, the Sharia department works closely with all departments and management within Maisarah to ensure all activities, operations, and transactions are conducted in accordance with Sharia rules, principles, and IBRF guidelines.

As a part of its role, the Sharia department monitors and audits all branches, business units and control functions of Maisarah. The service level agreements and profit distribution with BankDhofar are also reviewed and audited by the Sharia Compliance and Audit department.

Furthermore, Maisarah has entered into an engagement with an External Sharia Auditor that conducted a third-party independent Sharia audit and review to ensure the highest standards of Sharia compliance are maintained within Maisarah. The Sharia Compliance department is actively involved in Islamic banking and product-related training of staff, management and other stakeholders.

Maisarah Corporate Services

Maisarah Corporate Services comprising of Maisarah Operations & Support Services (MO&SS), Policies & Procedures, Product Development, Projects & IT, Recovery & Remedial Assets, and Learning & Development departments provides infrastructure support for the efficient functioning of Maisarah Islamic Banking Services. This group is working under the supervision of Chief Operating Officer Maisarah.

Maisarah Operations & Support Services

Maisarah Operations & Support Services (MO&SS) consist of the following department:

- Centralized Operations
- Credit Administration
- Trade Finance
- General Admin Services

MO&SS facilitates all operations of Maisarah to allow business units to offer the best and efficient services to customers, and continuously works on streamlining and re-engineering the processes to ensure that operational risks are minimized while enhancing the operational efficiencies to execute and process the transactions on day to day basis. Similarly, with the addition of Maisarah Remedial and recovery department bank has improved its recovery of bad debts and minimize provisioning for the year.

MO&SS also plays an important role in the implementation of systems and procedures to automate its activities to fulfill its goal of providing the best customer experience through the state-of-the-art infrastructure support.

Product Development

As a part of the core strategy for providing a complete range of Sharia-compliant products and services, Maisarah has established a dedicated product development department that focuses on creatively developing new and innovative product along with enhancing the existing products through continuous research and customer feedback. The main objective of product development is to design product structures that meet the customer requirements in the best possible manner, whilst helping Maisarah expand its business.

In order to allow salaried Omani nationals to obtain financing from Maisarah for the purchase of commercial vehicles/ goods/ equipment/ Real estate, Maisarah introduced a Commercial Finance product. Commercial Finance enables customers to fulfil their dream of owning a successful business, by availing financing for a period of up to 15 years or more based on regulatory and bank policy. Furthermore, the product can provide an additional income stream for salaried Omani nationals at attractive profit rates.

Maisarah also added Takaful products to its product suite enhancing customer convenience. Bank added 2 Takaful products during 2020 named, Critical Illness Plan and Personal Accident cover.

During the year Product Development department has successfully launched Prize Scheme for 2020 under Prize Account product for its retail customers based on the Sharia structure of Mudarabah, allows the customer a chance to win periodic prizes, which are paid from shareholders' funds. Additional prize draws were also launched for Prize Account customers during the year.

Product development efforts will continue to play an important role in providing the best customer experience through the development and launch of innovative products and services.

Maisarah Projects, Policies, and Procedures

Under Corporate Services the Maisarah IT & Project department in coordination with Maisarah Policies & Procedures Department has achieved several milestones within this year to enhance customer services by delivering various key projects among many other initiatives, MIBS PPD & Project team were instrumental in driving the deferment project for the customers impacted by COVID19 pandemic.

The department plays an important role in enabling Maisarah to continue its remarkable growth by building the state-of-the-art infrastructure and developing the organizational structure for future success

Maisarah - Financial Performance

In the midst of current economic challenges caused by COVID19 pandemic and related challenges in the market, Maisarah key financial metrics continued to show momentous growth. The gross income from Financing, Placement and Investment increased by 15.51% to RO 30.31 million (USD 78.73 million) in 2020 from RO 26.24 million (USD 68.16 million) reported in 2019. The net financing income (after cost of funds) increased by 24.15%, to RO 15.42 million (USD 40.05 million) for 2020 as compared to RO 12.42 million (USD 32.26 million) reported in 2019. Non-Funded income declined by 18.91% to RO 1.93 million (USD 5.01 million) in 2020 from RO 2.38 million (USD 6.18 million) in 2019. Non Funded income from business was lower compared to previous year due to the economic challenges resulting from COVID19 pandemic outbreak.

Maisarah operating revenue increased significantly by 17.23% to RO 17.35 million (USD 45.06 million) in 2020, compared to RO 14.80 million (USD 38.44 million) earned in 2019. Operating expenses of Maisarah increased 5.88% to RO 7.51 million in 2020 compared to RO 7.09 million in 2019. Operating profit before ECL/provisions of Maisarah showing strong growth of 27.63% year-on-year. Maisarah net impairment (ECL) for 2020 is RO 3.33 million (USD 8.65 million) compared to RO 0.74 million (USD 1.92 million) for 2019. The higher impairment is due to the prudent measures which were taken considering the economic impact due to COVID19 pandemic and continued pressure on oil prices. Cost to income ratio continued to improve and reduced to 43.29% for 2020 from 47.92% in 2019.

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

Particulars	RO in Million		
	2020	2019	Growth %
Gross Financing income	**30.31**	26.24	15.51%
Net Financing income (after cost of fund)	**15.42**	12.42	24.15%
Fees, commissions & other income	**1.93**	2.38	-18.91%
Total Operating Income	**17.35**	14.80	17.23%
Total operating costs	**(7.51)**	(7.09)	-5.92%
Operating profit before imp.allowance all\\a\allowance	**9.84**	7.71	27.63%
Impairment allowance	**(3.33)**	(0.74)	-350.00%
Net profit / (loss) before tax	**6.51**	6.97	-6.60%

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

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

A brief analysis of our diverse financing portfolio as at December 31, 2020 is as follows:

Particulars	RO in Million		
	2020	2019	Growth %
Murabaha & Other receivables	**23.46**	19.09	22.89%
Mudaraba financing	**13.33**	18.90	-29.47%
Diminishing Musharaka financing	**347.78**	326.82	6.41%
Ijarah Muntahia Bittamleek	**46.40**	46.02	0.83%
Credit Card receivable	**0.57**	0.60	-5.00%
Wakala Finance	**52.02**	40.01	30.02%
Gross Financing to customers	**483.56**	451.44	7.12%
Less: Allowance for impairment	**(8.54)**	(5.43)	57.27%
Net Financing	**475.02**	446.01	6.50%

Customer deposits of Maisarah as at December 31, 2020 comprises of the following:

Particulars	RO in Million		
	2020	2019	Growth %
Current accounts	**99.01**	112.50	-11.99%
Equity of investment account holders	**53.46**	39.32	35.96%
Wakala Deposits	**220.79**	253.40	-12.87%
Total customer deposits	**373.26**	405.22	-7.89%

Maisarah Goals & Plans

Maisarah shall continue to stay focused on providing superior customer services, increase market share, enhance business growth and create value for its shareholders.

The key area of focus and initiatives for 2021 include:

- Maisarah will be embarking on a customized Transformation Journey having a customer centric approach to ensure customers receives the best experience while doing business with Maisarah.
- Maisarah will focus on achieving operational excellence throughout its operations.
- Reach out to many customers, segments and regions by expanding branch network and expanding our digital platforms to have contact less banking to fulfill customer requirements at their fingertips.
- Investing in Digitalization and technology infrastructure to streamline internal process, reduce operational risks and to ensure our customers receive seamless best of the class services.
- Roll out new products and services to cater to ever growing customer needs.
- Improve and optimize current product and services to minimize the turnaround times.
- Introducing more innovative channels and E platforms to customers for banking transactions.
- Develop stronger relationships with its existing and new customer and all other stakeholders by getting closer to them through regular meetups and workshops.

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II & III

Report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III Disclosures and Basel III disclosures of Maisarah Islamic Banking Services - 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 Maisarah Islamic Banking Services - Window (the Islamic window) of the Bank set out on pages 1 to 45 as at and for the year ended 31 December 2020. The Pillar III disclosures were prepared by the Directors 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 Islamic 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 Islamic window's disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic 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 Islamic 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 Islamic window or the Bank.

PricewaterhouseCoopers

برايس وترهاوس كوبرز ش.م.م
PricewaterhouseCoopers LLC
C.R. No 1230865

Muscat, Sultanate of Oman
10 March 2021

1. SCOPE OF APPLICATION

1.1. QUALITATIVE DISCLOSURE

1. Maisarah Islamic Banking Services (Maisarah) is an Islamic Window of Bank Dhofar SAOG (the Bank), established after obtaining license from the Central Bank of Oman (CBO). The principal activities of the Maisarah include accepting saving, investment accounts, providing Shari'a Compliant forms of financings as well as managing investor's money on the basis of Mudaraba or Wakala, providing commercial banking services and other investment activities.

2. A complete set of financial statements of Maisarah is included in the annual report of the Bank. The disclosures in this document have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy.

3. There is no restriction on the transfer of funds from the Bank towards Maisarah. However, under the IBRF, Title 9, section 1.10.2, transfer of funds from Maisarah to the Bank is not permissible.

1.2. QUANTITATIVE DISCLOSURE

1. Maisarah does not own any interest in any entities including Takaful company.

2. CAPITAL STRUCTURE

2.1. QUALITATIVE DISCLOSURE

1. Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than RO 10 million or such higher amount as may be determined from time to time by CBO. Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. The capital buffer requirement as per Basel III is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

   Maisarah's regulatory capital is calculated as per the guidelines issued by the CBO. The regulatory capital is broadly classified into two categories – Tier I and Tier II capital. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital, retained earnings (available on a long-term basis) and reduced by unrealized losses on investments categorized as fair value through other comprehensive income. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of Risk Weighted Assets (RWA) as Tier 1 Capital ratio.

   Tier II (supplementary capital) consists of undisclosed reserves, revaluation reserves / cumulative fair value gains on instruments classified as other comprehensive income and impairment provision subject to certain conditions.

   Deposits of Unrestricted Investment Account Holders (URIA) is not considered as part of regulatory capital and Maisarah is not reducing its risk weighted assets for jointly financed assets.

2. CAPITAL STRUCTURE (continued)

2.2. QUANTITATIVE DISCLOSURE (continued)

1. The details of capital structure are provided as under:

ELEMENTS OF CAPITAL	RO'000
Common Equity Tier I Capital (CET1)	
Paid up capital	70,000
Share Premium	-
Legal Reserve	-
Subordinated Debt Reserve	-
Retained earnings	11,099
Proposed Stock Dividend	-
Common Equity Tier I Capital (CET1)	**81,099**
Prudential valuation adjustments	(2,260)
Additional Tier I Capital (AT1)	-
Total Tier I Capital (TI=CET1+AT1)	**78,839**
Tier 2 Capital (T2): Instruments and provisions	
Subordinated Debt	-
45% of cumulative fair value gains of FVOCI instruments	82
Impairment provision (upto 1.25% of risk-weighted assets) *	5,523
Profit Equalization Reserve (PER) & Investment Risk Reserve (IRR)	27
Total Tier 2 Capital (T2)	**5,632**
TOTAL REGULATORY CAPITAL (TC=CET1+AT1+ T2)	**84,471**

* As per CBO Circular BSD/CB/2020/005 dated 03 June 2020, Expected Credit Loss (ECL) under Stage 1 and Stage 2 (40% of Stage 2 ECL as at 31 December 2019 and 100% of incremental Stage 2 ECL for the year ended 31 December 2020) shall be considered for Tier II capital provided such amount should not exceed 1.25% of the credit risk weighted assets.

2. The elements of equity of Unrestricted Investment Account Holders (URIA) are provided as under:

ELEMENTS OF EQUITY OF URIA	RO'000
Total URIA Funds	53,456
Profit Equalization Reserve (PER) - Shareholders' Component	11
Profit Equalization Reserve (PER) - Investment Account Holders' Component)	11
Investment Risk Reserve (IRR)	5
Total	**53,483**

3. CAPITAL ADEQUACY

3.1. QUALITATIVE DISCLOSURE

1. The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings from external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

   Maisarah capital adequacy ratio is 14.65% as against the CBO requirement of 11% of Minimum capital adequacy ratio. The Bank's policy is to manage and maintain its window's capital with the objective of maintaining strong capital ratio and high rating. Maisarah maintains capital levels that are sufficient to absorb all material risks to which it is exposed to and provides market return to the shareholders. Maisarah also ensures that the capital levels comply with regulatory requirements. The whole objective of the capital management process in Maisarah is to ensure that it always remains adequately capitalized.

2. In principle, Risk weighted assets (RWA) financed by Profit Sharing Investment Accounts (PSIA) are excluded in the calculation of the denominator of the capital ratio, as to the extent the commercial risk of these assets do not affect the capital of the shareholders. However, as per communication received from CBO, RWA shall be computed similar to that in conventional banking, therefore, PSIA is not deducted. Assets funded by PSIA are also assigned same risk weights as the assets funded by own equity.

3.2. QUANTITATIVE DISCLOSURE

1. Capital Requirement

Details	Risk Weighted Assets RO'000	Capital Requirements* RO'000
Credit Risk	501,974	55,217
Market Risk	17,375	1,911
Operational Risk	57,346	6,308
Total Risk Weighted Assets	**576,695**	**63,436**

* calculated as 11% of risk weighted assets as per the CBO requirement.

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

2. Capital Adequacy Ratio

Sr.No.	Details	RO'000
1	Tier I Capital (after supervisory deductions)	78,839
2	Tier II Capital (after supervisory deductions and up to eligible limits)	5,632
3	Of which, Total Eligible Tier III Capital	-
4	Risk weighted assets – banking book	501,974
5	Risk weighted assets – operational risk	57,346
6	Total risk weighted assets – Banking Book + Operational risk	**559,320**
7	Minimum required capital to support RWAs of banking book and operational risk	61,525
7 (1)	Minimum required Tier I capital for banking book and operational risk	55,975
7 (2)	Tier II capital required for banking book and operational risk	5,550
8	Tier I capital available for supporting trading book	23,046
9	Tier II capital available for supporting trading book	-
10	Risk weighted assets – trading book	17,375
11	Total capital required to support trading book	1911
12	Minimum Tier I capital required for supporting trading book	545
13	Used Eligible Tier III Capital	-
14	**Total regulatory capital**	**84,471**
15	**Total risk weighted assets**	**576,695**
16	**BIS capital adequacy ratio**	**14.65%**

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

3. Ratio of Total and Tier I Capital to RWA

Sr.No.	Details	RO'000
1	Tier I capital	78,839
2	Total capital	84,471
3	Total RWA	576,695
4	**Ratio of total capital to RWA (%)**	**14.65%**
5	**Ratio of tier I capital to RWA (%)**	**13.67%**

4. Ratio of Total Capital to Total Assets

Sr.No.	Details	RO'000
1	Total capital	84,471
2	Total assets	618,522
3	**Ratio of total capital to total assets (%)**	**13.66%**

5. Capital Requirement for Each Category of Shari'a Compliant Financing Contracts

Details	Credit Risk		Market Risk	
	RWA RO '000	Capital Requirement RO '000	RWA RO '000	Capital Requirement RO '000
Murabaha and other Receivables	24,713	2,718	-	-
Mudaraba Financings	41,861	4,605	-	-
Ijarah Assets	17,978	1,978	-	-
Diminishing Musharaka Financing	277,059	30,476	-	-
Wakala Financing	52,961	5,826	-	-
Total	**414,572**	**45,603**	**-**	**-**

3. CAPITAL ADEQUACY (continued)

3.2. QUANTITATIVE DISCLOSURE (continued)

6. Disclosure of Displaced Commercial Risk

Details	RO'000
Total profits available for distribution	**30,310**
Profit sharing	
- Shareholders	28,956
- IAH's	**1,354**
Mudarib fee charged by Maisarah	(282)
Profits for IAH's before smoothening	**1,072**
Amount adjustment for profit smoothening	(7)
Profits paid out to IAH after smoothening	**1,065**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH)

4.1.1. QUALITATIVE DISCLOSURE

1. Policy for profit and loss distribution is in place which governs the management of unrestricted funds. The policy includes the management and investment of fund strictly in Shari'a compliant investments and financing opportunities.
2. Currently, Maisarah offers following types of unrestricted Mudaraba deposits to customers:
   - Savings accounts;
   - Prize Saving accounts; and
   - Term deposits of various maturities.

   These products are made available to the investors through Maisarah branches. Further, the products are also listed on Maisarah's website with detailed product information.
3. Asset and Liability Committee (ALCO) is the governing body responsible for the determination of assets to form the pool of assets. Basis for allocation of expenses and profit is provided in detail under disclosure 4.2.1.
4. The policy [identified in point (i) of this disclosure] is in place which governs the management of both unrestricted and restricted IAH funds, approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (continued)

4.1.2. QUANTITATIVE DISCLOSURE

1. PER to IAH Ratio

Represents the amount of total PER / Amount of PSIA by type of IAH

Details	RO'000 / %
Profit Equalization Reserve	22
Unrestricted Investment Account Holders funds	53,456
PER to IAH ratio	**0.041%**

2. IRR to IAH Ratio

Represents the amount of total IRR / Amount of PSIA by type of IAH

Details	RO'000 / %
Investment Risk Reserve (IRR)	5
Unrestricted Investment Account Holders funds	53,456
IRR to IAH ratio	**0.009%**

3. Return on Assets (RoA)

Represent the amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAH, and current accounts and other liabilities).

Details	RO'000 / %
Total net income (before distribution to IAHs)	7,577
Total assets	618,522
RoA	**1.225%**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (continued)

4.1.2. QUANTITATIVE DISCLOSURE (continued)

4. Return on Equity (RoE)

Represents the amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity.

Details	RO'000 / %
Total net income (after distribution to IAHs)	6,512
Total shareholder's equity	79,021
RoE	**8.241%**

5. Ratios of Profit Distributed to PSIA by type of IAH

Details	%
Savings deposit	100
Term deposit	-
Total	**100**

6. Ratios of Financing to PSIA by type of IAH

Details	RO'000 / Ratio
Total Financing	482,984
Saving deposits	53,456
Financing to PSIA	**9.04**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (continued)

4.2.1. QUALITATIVE DISCLOSURE (continued)

1. During the current year, there was no major change in the investment strategy of Maisarah which affects the investment accounts. Maisarah continued the commingling of IAH's funds with its own funds or with the funds which Maisarah has right to use.
2. Income from Mudaraba pool, comprising of Shari'a compliant assets, is reduced by direct expenses. PER is appropriated from the net income before allocating the Mudarib's share of income. Thereafter, Mudarib's fee is charged which shall not exceed 80% of the profit earned by Maisarah. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit. Net distributable income is distributed to different classes of investment accountholders in accordance with the weightages based on amount and tenor.
3. PER is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. PER will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.
4. ALCO determines the category of expenses that should be deducted from the total return (gross returns) of the investment pools as direct expenses. Direct expenses such as depreciation, pre-paid expenses, commission of direct investments (such as Sukuk) or any other direct related expenses shall be charged to the relevant pool. Maisarah does not charge any operating expenses against the profits from the joint pool other than the aforementioned direct expenses.
5. The administration expenses are only charged to Maisarah.

4.2.2. QUANTITATIVE DISCLOSURE

1. Unrestricted IAH Funds and Sub-Total by Asset Category

Details	RO'000
Assets	
- Murabaha	2,188
- Diminishing Musharaka	32,444
- Ijarah Muntahia Bittamleek	4,329
- Wakala financing	4,853
- Mudaraba financing	1,244
- Investment in Sukuk	7,463
- Wakala placement	718
- Murabaha and Musawamah inventory	6
- Advances	212
Total Unrestricted IAH Funds (allocated based on proportion)	**53,456**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (continued)

4.2.2. QUANTITATIVE DISCLOSURE (continued)

2. Share of Profit to IAH before and after transfer of funds

Details	RO'000	%
Share of profit of IAHs before PER and IRR for the year	1,072	2.01%
Transfers To:		
PER	(6)	-0.01%
IRR	(1)	0.00%
Share of profit of IAHs after PER and IRR for the year	**1,065**	**2.00%**

3. Movement of PER and IRR

Details	PER RO'000	IRR RO'000
Balance as at 1 January 2020	16	4
Add: Amount apportioned from income allocated	6	1
Less: Amount utilized during the year	-	-
Balance as at 31 December 2020	**22**	**5**

4. Utilization of PER and IRR

PER and IRR have not been utilized during the year.

5. 5 Years Profits Earned and Profits Paid

Deposit Category	Average rate over 5 years	Position as at				
		Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Saving accounts (RO)	0.89%	0.57%	0.60%	0.66%	0.95%	1.67%
Saving accounts (USD)	0.48%	-	-	0.22%	0.19%	1.03%
Prize Saving Account	0.78%	0.59%	0.61%	0.64%	0. 99%	1.06%
Mudaraba 3-M	0.00%	-	-	-	-	-
Mudaraba 12-M	1.25%	-	-	-	-	1.25%

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (continued)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (continued)

4.2.2. QUANTITATIVE DISCLOSURE (continued)

6. Administrative Expenses

Maisarah does not charge any administrative expenses to unrestricted IAH.

7. Asset Allocation During Last Six Months

There have been no material changes in asset allocation during the last six months.

8. Off Balance Sheet Exposures

No off-balance sheet exposure is allocated to the pool.

9. Limits Imposed on Investment Amount

Maisarah has not imposed any limits on the amount that can be invested in any one type of asset.

4.3. RESTRICTED INVESTMENT ACCOUNTS

1. The Bank does not have any restricted investment accounts as at the reporting date.

5. RETAIL INVESTOR-ORIENTED DISCLOSURES FOR IAH

Disclosures for IAHs, mentioned in section 4, is equally applicable for the retail investors. Below are some of the salient features for retails investors:

1. The deposits being accepted by the Bank under URIA are structured according to Mudaraba contracts. Under the Mudaraba, the Bank acts as a Manager (Mudarib) of the depositor / Investor (Rab ul Maal).
2. Under the arrangement of URIA, the Bank is authorized to invest the IAHs' funds strictly in Shari'a compliant investment and financing opportunities. Under this arrangement, the Bank can mix the IAHs funds with its own funds. Accordingly, IAHs, and the Bank share in the returns on the invested funds in proportion to their respective investments.
3. Different categories of deposits are assigned variable weights / utilization rates based on the investment amount and tenor. The higher the investment amount and the longer the investment tenor, the higher shall be the weights / utilization rates.
4. In case of premature withdrawals, the bank may apply a lower weights / utilization rate. Where a deposit is withdrawn by the IAH before the completion of its term, the effective weight / utilization rate for the highest tenor completed by the investment shall be applied on the actual investment days for profit calculation.
5. Profit on the investment jointly financed by the Bank and IAHs, shall be allocated between them according to their respective investment portions. Any loss due to negligence or misconduct on the part of the Bank shall be deducted from the Bank's share in the profits of the jointly financed investment.
6. The profit from URIA accounts shall be calculated and allocated based on the profit calculation frequency and the weights / utilization rates assigned to each category of deposits.
7. The banks shall charge only direct expense to the pool income such as depreciation on Ijarah assets; and will not deduct any indirect expenses such as salary, admin costs etc.
8. To cater the situation where actual profit rate is less than the market rate (known as Displaced Commercial Risk) and to cater the future losses, the Bank maintains a certain percentage of profits as Profit Equalization Reserve and Investment Risk Reserve respectively.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION

6.1. GENERAL DISCLOSURE

6.1.1. QUALITATIVE DISCLOSURE

1. Bank has well established risk management function which commonly serves the Conventional and Islamic window entity. The objective of the risk management function is to identify, measure, monitor and manage its risk exposures to ensure that:

   - risks are understood;
   - risks are within tolerances set by the Board of Directors;
   - decisions having inherent risks are consistent with strategic business objectives;
   - risk taking decisions are explicit and clear;
   - the expected return compensates for the risk taken; and
   - bank's performance incentives are aligned with risk tolerances or risk reward relationship.

   Risk management is a continuous, forward-looking process that should address issues that could endanger achievement of critical objectives. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business.

   Bank's risk management strategy statement has been provided under Chapter on Management Discussion and Analysis. Bank has formulated various policies in various areas of operations of the Bank which are duly approved by the Board of Directors. Bank also has developed various procedures for smooth functioning and mitigating/ controlling risks.

2. The overall risk management has been delegated to an independent Board Risk Committee (BRC) of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRC relies on an independent Risk Management Division within the Bank.

   The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

3. Depending on the type of risk, Bank has placed internal systems and models to measure various risks. The risk measurement system has been made effective by strengthening the Management Information System (MIS) to report about various to Senior Management and Board on periodical basis. The measurement of risk takes into account the nature of the risk, exposure, profile, existence of mitigants and the impact.

4. Bank has defined various policies to define the collaterals and processes to mitigate various risks. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business. Bank has defined three lines of defense system for monitoring the risks. The Three Lines of Defense Framework defines roles and responsibilities of various entities in the Bank in addressing risks and controls; the aspect for which each entity is accountable, and how the efforts between entities are coordinated at the Bank-wide level. The framework addresses how specific duties related to risk and control could be assigned and coordinated within an organization and monitors the implementation of effective risk management practices.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.1. GENERAL DISCLOSURE (continued)

6.1.2. QUANTITATIVE DISCLOSURE

1. Risks Measures for Restricted IAH Funds and Assets Funded by Restricted IAH

The Bank does not have any restricted investment accounts as at the reporting date.

2. Assets Financed by Unrestricted IAH in RWA Calculation

Maisarah applies same treatment for calculation of RWA for assets financed by unrestricted IAH and shareholders.

3. Financing by Contract Type

Details	RO'000	%age of total financing
Murabaha and other receivables	24,024	4.97%
Mudaraba Financings	13,331	2.76%
Ijarah Assets	46,400	9.60%
Diminishing Musharaka Financing	347,784	71.91%
Wakala Financing	52,017	10.76%
Total	**483,556**	**100.00%**

4. Financing by Counterparty Category

Details	RO'000	%age of total financing
Corporate and SME	304,456	62.96%
Retail	179,100	37.04%
Total	**483,556**	**100.00%**

5. Assets Pledged as Collateral

As of the reporting date, Maisarah has not pledged any of its assets as collateral (2019: no assets were pledged).

6. Guarantees or Pledges by Islamic Window

As of the reporting date, Maisarah has not extended any guarantees or pledges (2019: no guarantees or pledges).

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK

6.2.1. QUALITATIVE DISCLOSURE

1. Credit risk is defined as the possibility that a customer or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from Maisarah's dealings with or financing to a corporate, individual, another bank or financial institution. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

2. Maisarah has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. The Board of Directors delegate credit approval powers for functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

   Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain finance approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

   Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the credit corporate proposals before they are considered by the appropriate approving authorities. The customer in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the customer and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews have been prescribed at higher frequency.

   Retail financing is strictly in accordance with the CBO guidelines.

   In addition to these, Maisarah also undertakes business with other banks. The maximum exposures to these banks are defined in the policy on exposure to non-resident borrowers and restrictions are put in place on the total exposure to such counterparty banks. Maisarah has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed at least on yearly basis.

3. In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention is used for Maisarah as well.

   The Bank's conventional entity has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. The same convention has been adopted for Maisarah as well.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.1. QUALITATIVE DISCLOSURE (continued)

The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is NIL. All other credit exposures of Corporate and Retail (except house finance, where valuation of the property is not older than 3 years; have a maximum of 2 dwelling units per borrower; and LTV is less than or equal to 80%, are assigned 35% risk weight and 75% for SME borrowers) are assigned 100% risk weight.

4. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 01 January 2018.

6.2.2. QUANTITATIVE DISCLOSURE

1. Total Gross Credit and Average Gross Credit Exposure

31 December 2020	Total Gross Credit RO'000	Average Gross Credit RO'000
Murabaha and other receivables	24,024	28,526
Mudaraba financing	13,331	15,575
Diminishing Musharaka financing	347,784	337,487
Wakala financing	52,017	47,964
Ijarah Muntahia Bittamleek	46,400	46,358
Total	**483,556**	**475,910**

31 December 2019	Total Gross Credit RO'000	Average Gross Credit RO'000
Murabaha and other receivables	19,686	22,100
Mudaraba financing	18,896	21,955
Diminishing Musharaka financing	326,824	302,720
Wakala financing	40,010	30,960
Ijarah Muntahia Bittamleek	46,021	45,806
Total	**451,437**	**423,541**

Murabaha and other receivable includes Credit Card receivables which are funded exclusively by shareholders while all other financing exposures are funded jointly by shareholders and IAH. Percentage of funding of financing assets as at 31 December 2020 is as below:

Shareholders **88.95%**

IAH **11.05%**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

2. Total Gross Credit Exposure – Geographical Area

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Sultanate of Oman	24,024	13,331	347,784	52,017	46,400	**483,556**
Other GCC Countries	-	-	-	-	-	**-**
Europe and North America	-	-	-	-	-	**-**
Africa and Asia	-	-	-	-	-	**-**
Total	**24,024**	**13,331**	**347,784**	**52,017**	**46,400**	**483,556**

3. Total Gross Credit Exposure – Counterparty

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Corporate & SME	10,950	13,331	227,929	52,017	229	**304,456**
Retail	13,074	-	119,855	-	46,171	**179,100**
Total	**24,024**	**13,331**	**347,784**	**52,017**	**46,400**	**483,556**

4. Total Gross Credit Exposure – Industry

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Retail personal finances	13,074	-	119,855	-	46,171	**179,100**
Construction	2,728	5,609	143,562	16,933	229	**169,061**
Manufacturing	3,810	3,118	8,046	9,199	-	**24,173**
Services	-	29	45,396	3,376	-	**48,801**
Others	4,412	4,575	30,925	22,509	-	**62,421**
Total	**24,024**	**13,331**	**347,784**	**52,017**	**46,400**	**483,556**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

5. Total Gross Credit Exposure – Residual Contractual Maturity

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Upto 1 month	1,424	13,331	86	1,258	-	**16,099**
1 – 3 months	5,489	-	-	20,284	-	**25,773**
3 – 6 months	667	-	252	25,522	-	**26,441**
6 – 9 months	316	-	239	4,953	-	**5,508**
9 – 12 months	71	-	203	-	9	**283**
1 – 3 years	1,042	-	5,101	-	134	**6,277**
3 – 5 years	3,560	-	26,611	-	553	**30,724**
Over 5 years	11,455	-	315,292	-	45,704	**372,451**
Total	**24,024**	**13,331**	**347,784**	**52,017**	**46,400**	**483,556**

6. Total Gross Credit Exposure – Rating Category

Ratings	2020 RO'000	2019 RO'000
Rating grade 1 – 3	62,556	243,889
Rating grade 4 – 5	353,610	151,227
Rating grade 6 – 8	62,871	53,443
Non – performing financing	4,519	2,878
Total Financing	**483,556**	**451,437**

7. Total Gross Credit Exposure – Equity Based Financing

Equity based financing	31 December 2020		31 December 2019	
	Total Gross Credit RO '000	Average Gross Credit RO '000	Total Gross Credit RO '000	Average Gross Credit RO '000
Mudaraba financing	13,331	15,575	18,896	21,955
Wakala financing	52,017	47,964	40,010	30,960
Total	**65,348**	**63,539**	**58,906**	**52,915**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

8. Past Due and Impaired Financing Assets – Counterparty

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Corporate & SME						
- Neither past due nor impaired	10,833	13,331	212,139	51,909	229	**288,441**
- Past due but not impaired	109	-	11,666	38	-	**11,813**
- Non-performing	8	-	4,124	70	-	**4,202**
- Total financing	**10,950**	**13,331**	**227,929**	**52,017**	**229**	**304,456**
- Stage 1 & 2 ECL	79	209	6,139	107	1	**6,535**
- Stage 3 ECL	2	-	1,306	18	-	**1,326**
- Total ECL	**81**	**209**	**7,445**	**125**	**1**	**7,861**
Retail						
- Neither past due nor impaired	12,716	-	117,484	-	44,328	**174,528**
- Past due but not impaired	318	-	2,174	-	1,763	**4,255**
- Non-performing	40	-	197	-	80	**317**
- Total financing	**13,074**	**-**	**119,855**	**-**	**46,171**	**179,100**
- Stage 1 & 2 ECL	80	-	280	-	131	**491**
- Stage 3 ECL	25	-	106	-	53	**184**
- Total ECL	**105**	**-**	**386**	**-**	**184**	**675**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

9. Past Due and Impaired Financing Assets – Industry

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Retail personal finances						
- Neither past due nor impaired	12,716	-	117,484	-	44,328	**174,528**
- Past due but not impaired	318	-	2,174	-	1,763	**4,255**
- Non-performing	40	-	197	-	80	**317**
- Total financing	**13,074**	**-**	**119,855**	**-**	**46,171**	**179,100**
- Stage 1 & 2 ECL	80	-	280	-	131	**491**
- Stage 3 ECL	25	-	106	-	53	**184**
- Total ECL	**105**	**-**	**386**	**-**	**184**	**675**
Construction						
- Neither past due nor impaired	2,728	5,609	129,411	16,933	229	**154,910**
- Past due but not impaired	-	-	10,101	-	-	**10,101**
- Non-performing	-	-	4,050	-	-	**4,050**
- Total financing	**2,728**	**5,609**	**143,562**	**16,933**	**229**	**169,061**
- Stage 1 & 2 ECL	35	140	5,055	41	1	**5,272**
- Stage 3 ECL	-	-	1,283	-	-	**1,283**
- Total ECL	**35**	**140**	**6,338**	**41**	**1**	**6,555**
Manufacturing						
- Neither past due nor impaired	3,810	3,119	8,046	9,198	-	**24,173**
- Past due but not impaired	-	-	-	-	-	**-**
- Non-performing	-	-	-	-	-	**-**
- Total financing	**3,810**	**3,119**	**8,046**	**9,198**	**-**	**24,173**
- Stage 1 & 2 ECL	7	42	249	9	-	**307**
- Stage 3 ECL	-	-	-	-	-	**-**
- Total ECL	**7**	**42**	**249**	**9**	**-**	**307**
Services						
- Neither past due nor impaired	-	28	45,162	3,376	-	**48,566**
- Past due but not impaired	-	-	235	-	-	**235**
- Non-performing	-	-	-	-	-	**-**
- Total financing	**-**	**28**	**45,397**	**3,376**	**-**	**48,801**
- Stage 1 & 2 ECL	-	-	546	4	-	**550**
- Stage 3 ECL	-	-	-	-	-	**-**
- Total ECL	**-**	**-**	**546**	**4**	**-**	**550**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

9. Past Due and Impaired Financing Assets – Industry (continued)

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Others						
- Neither past due nor impaired	4,295	4,575	29,520	22,402	-	**60,792**
- Past due but not impaired	109	-	1,330	38	-	**1,477**
- Non-performing	8	-	74	70	-	**152**
- Total financing	**4,412**	**4,575**	**30,924**	**22,510**	**-**	**62,421**
- Stage 1 & 2 ECL	35	27	289	54	-	**405**
- Stage 3 ECL	2	-	23	18	-	**43**
- Total ECL	**37**	**27**	**312**	**72**	**-**	**448**

10. Past Due and Impaired Financing Assets – Geographical Area

Details	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Wakala financing RO'000	Ijarah Muntahia Bittamleek RO'000	Total RO'000
Sultanate of Oman						
- Neither past due nor impaired	23,549	13,331	329,623	51,909	44,557	**462,969**
- Past due but not impaired	427	-	13,840	38	1,763	**16,068**
- Non-performing	48	-	4,321	70	80	**4,519**
- Total financing	**24,024**	**13,331**	**347,784**	**52,017**	**46,400**	**483,556**
- Stage 1 & 2 ECL	158	209	6,420	107	132	**7,026**
- Stage 3 ECL	28	-	1,411	18	53	**1,510**
- Total ECL	**186**	**209**	**7,831**	**125**	**185**	**8,536**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.2. CREDIT RISK (continued)

6.2.2. QUANTITATIVE DISCLOSURE (continued)

11. Loss Provisions

Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2020	1,330	3,619	1,318	6,267
Provided / Added during the year	1,599	1,146	873	3,618
Written back during the year	-	-	(54)	(54)
Written off during the year	-	-	-	-
As at 31 December 2020	**2,929**	**4,765**	**2,137**	**9,831**

12. Penalties on Customers and Donation Payment

Details	RO'000
Undistributed charity funds as at 1 January 2020	5
Shari'a non-compliant income	7
Disposition of charity funds	(5)
Undistributed charity funds as at 31 December 2020	**7**

6.3. CREDIT RISK MITIGATION

6.3.1. QUALITATIVE DISCLOSURE

1. Assets leased under Ijarah Muntahiyah Bittamleek is governed by the relevant product schemes of Corporate Ijarah and Home Finance. Asset under Ijarah is owned by Maisarah by registering it in its name throughout the period of Ijarah. Further, the asset is also secured through Takaful (Islamic Insurance), to cover Maisarah's exposure in case of loss.

2. Hamish Jiddiyah / Urbun is a down payment is taken from the customer as part of his contribution in the asset. With respect to pledge of asset, an asset in case of Ijarah remains in Maisarah's ownership during the term of financing, however, in case of Diminishing Musharaka the pledge is a primary collateral.

3. Maisarah has well defined policies in place for the valuation and re-valuation of the collateral and it's enforceability. It is principally governed through the Credit Risk Policy, combined with related product schemes such as Corporate Ijarah, Corporate Diminishing Musharaka, Home Finance and Property Finance. Further to this the mechanism of disposing of such assets is also discussed in the policy and Instruction Manual Wholesale Banking and Instruction Manual Credit Administration.

4. The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.3. CREDIT RISK MITIGATION (continued)

6.3.1. QUALITATIVE DISCLOSURE (continued)

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Customer and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing assets grades (including special mention) and 3 non-performing assets grades. The rating grade indicates the default probability of the customer's obligation. The same rating framework has been adopted by Maisarah as well.

Bank has also implemented Risk Adjusted Return on Capital (RAROC) methodology for Maisarah which provides the risk-based pricing. The RAROC system enables Maisarah to price its facilities after considering the cost and risk involved in a facility.

6.3.2. QUANTITATIVE DISCLOSURE

1. Total Carrying Amount by Type of Collateral

Total carrying amounts of collateral of non-performing corporate assets by type of collateral held by the window is as follows:

Collateral Type	Collateral Value RO'000	Haircut Applied RO'000	Total Collateral After Haircut Applied RO'000
Mortgage	6,365	35%	4,137
Total	**6,365**	**-**	**4,137**

2. Assets Owned and Leased under Ijarah Muntahiyah Bittamleek

Carrying amount of assets under Ijarah Muntahia Bittamleek as of 31 December 2020 is RO 46,400 thousand.

6.4. LIQUIDITY RISK

6.4.1. QUALITATIVE DISCLOSURE

1. Maisarah's Liquidity Risk Management is governed by the Asset Liability Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management.

   Overall, Bank follows CBO circular BM955 for liquidity risk management of Current Accounts and URIA, which requires the monitoring and managing based on the cashflow approach for liquidity risk profile. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to above five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the limits set by CBO on cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

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

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4.2. QUANTITATIVE DISCLOSURE

1. Indicators of Exposure to Liquidity Risk

Ratios	%
Liquid asset ratios	16.76%
Liquid assets to short term liabilities	118.34%
Liquidity coverage ratio	511.95%
Net stable funding ratio	104.07%

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.4.2. QUANTITATIVE DISCLOSURE (continued)

2. Maturity Analysis / Maturity Profile

	2020					
	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	14,823	-	-	-	-	**14,823**
Due from banks and financial institutions	8,839	-	-	-	-	**8,839**
Murabaha and other receivables	4,678	5,698	2,535	9,407	1,520	**23,838**
Mudaraba financing	667	1,333	1,333	6,666	3,123	**13,122**
Diminishing Musharaka financing	1,892	28,807	34,548	143,898	130,808	**339,953**
Investments	-	-	-	43,844	36,022	**79,866**
Wakala financing	51,892	-	-	-	-	**51,892**
Ijarah Muntahia Bittamleek	353	1,869	2,247	17,311	24,435	**46,215**
Property and equipment	-	-	-	-	476	**476**
Intangibles	-	-	-	-	507	**507**
Other asset	13,269	5,840	17,325	-	2,557	**38,991**
Total assets	**96,413**	**43,547**	**57,988**	**221,126**	**199,448**	**618,522**
Current accounts	23,078	33,222	19,061	-	23,653	**99,014**
Due to banks	50,000	35,400	15,400	-	-	**100,800**
Qard Hasan from Head Office	2,005	-	-	35,000	-	**37,005**
Customer Wakala term Deposit	239	57,314	74,537	70,821	17,881	**220,792**
Other liabilities	4,714	5,840	17,325	-	528	**28,407**
Equity of unrestricted investment accountholders	2,673	5,346	5,346	26,728	13,390	**53,483**
Owner's equity	-	-	-	-	79,021	**79,021**
Total liabilities and accountholders & owners' equity	82,709	137,122	131,669	132,549	134,473	618,522

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.5. MARKET RISK

6.5.1. QUALITATIVE DISCLOSURE

1. Market Risk is the risk to the Bank's earnings and capital due to changes in the profit rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

   Maisarah has a comprehensive Asset Liability Management Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

6.5.2. QUANTITATIVE DISCLOSURE

1. Breakdown of Market Risk RWA

Details	RWA RO'000
Profit rate related instrument	-
Equity	-
Foreign exchange & gold position	17,375
Commodities position	-
Total	**17,375**

2. Foreign Exchange Net Open Positions to Capital

Details	Amount RO'000
Foreign exchange net open position	14,969
Total capital	84,571
Foreign exchange net open position to total capital	0.177
99.9% of the net open position is in pegged currencies.	

3. Commodity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to commodity positions.

4. Equity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to equity positions.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.5. MARKET RISK (continued)

6.5.2. QUANTITATIVE DISCLOSURE (continued)

5. Assets Subject to Market Risk by Type of Assets

Type of Assets	Gross Amount RO'000
Total Sukuk	79,995
Net open position foreign currency	14,969

6. Sensitivity analysis for different types of Market Risk

Impact on earnings due to profit rate risk in the banking book is as follows:

	+ or – 1%		+ or – 2%	
	2020 RO '000	2019 RO '000	2020 RO '000	2019 RO '000
Omani Rials	**1.01**	0.915	**2.01**	1.83
US Dollars	**0.40**	0.533	**0.80**	1.06
Other currencies	**-**	-	-	-

Impact on earnings due to foreign exchange risk:

Impact on earnings due to 10% devaluation of foreign exchange in the banking book is RO 1,497 thousand.

6.6. OPERATIONAL RISK

6.6.1. QUALITATIVE DISCLOSURE

1. The Operational risk policy of the Bank sets out the loss mitigation tools. Bank has established a disaster comprehensive recovery and business continuity plan, considering various plausible scenarios in accordance with the 'Business Continuity Plan (BCP). Bank has implemented IT Security Policy and guidelines to mitigate the information technology security related risks.

   The Bank has developed a comprehensive operational risk management framework comprising of the Risk Control and Self-Assessment, Key Risk Indicator and Loss Data Management (LDM) Framework. The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. Bank has created a comprehensive risk register which includes inherent risk events, control effectiveness and residual risks. The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks at various levels. KRIs of all the departments have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.6. OPERATIONAL RISK (continued)

6.6.1. QUALITATIVE DISCLOSURE (continued)

2. Bank has set up Management Risk Committee to identify, manage, measure, monitor, mitigate and report operational risks.

   Bank has the process of collecting and collating data on operational risk events to build a strong loss data base and to improve the control effectiveness. The loss data are being captured using Operational Risk Management system. Further, other operational risk tools like Risk Control & Self-Assessment (RCSA) and Key Risk Indicators (KRIs) are also implemented.

   In terms of regulatory guidelines, Bank has adopted the Basic Indicator Approach (BIA) for computing the capital charge for Operational Risk.

3. Maisarah has in place the policies and procedures to increase the banking as well as the Islamic financing knowledge within its staff. During the year, Maisarah has conducted 38 training programs including both in-house as well as external training programs. These programs were conducted mainly in the areas of concepts of Islamic banking and the products and services of Islamic banking.

6.6.2.QUANTITATIVE DISCLOSURE

1. RWA Equivalent for Quantitative Operational Risk

Details	RWA RO'000
Operational risk	57,346

2. Gross Income

Details	2020 RO'000	2019 RO'000	2018 RO'000	Average
Gross income	33,931	30,946	26,877	30,585

3. Amount of Shari'a Non-Compliant Income

Amount of Shari'a non-compliant income transferred to charity was RO 7 thousand.

6.7. RATE OF RETURN RISK

6.7.1. QUALITATIVE DISCLOSURE

1. Rate of return risk refers to the possible impact on the net income of Maisarah arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH's having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Maisarah.

2. The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Maisarah is not subject to any significant profit rate risk. However, the profit-sharing agreements will result in Displaced Commercial Risk (DCR) when Maisarah results do not allow to distribute profits in line with the market rates. To cater against DCR, Maisarah creates Profit Equalisation Reserve as explained in section 4.2.1.

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2020

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.7. RATE OF RETURN RISK (continued)

6.7.2. QUANTITATIVE DISCLOSURE

1. Indicators of exposures to rate of return risk

	Effective average profit rates	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non-profit bearing RO 000	Total RO 000
31 December 2020								
Cash and balances with Central Bank of Oman		-	-	-	-	-	14,823	**14,823**
Due from banks and financial institutions	**1.36%**	7,699	-	-	-	-	1,140	**8,839**
Murabaha and other receivables	**5.16%**	4,111	5,698	2,535	9,407	1,520	567	**23,838**
Mudaraba financing	**6.28%**	13,122	-	-	-	-	-	**13,122**
Diminishing Musharaka Financing	**5.73%**	1,892	28,807	34,548	143,898	130,808	-	**339,953**
Investments	**5.07%**	-	-	-	43,844	36,022	-	**79,866**
Wakala financing	**5.93%**	51,892	-	-	-	-	-	**51,892**
Ijara Muntahia Bittamleek	**5.28%**	353	1,869	2,247	17,311	24,435	-	**46,215**
Property and equipment	**-**	-	-	-	-	-	476	**476**
Intangibles	**-**	-	-	-	-	-	507	**507**
Other asset	**-**	-	-	-	-	-	38,991	**38,991**
Total assets		**79,069**	**36,374**	**39,330**	**214,460**	**192,785**	**56,504**	**618,522**
Current accounts	**2.69%**	14,903	26,079	4,903	-	18,629	24,500	**99,014**
Due to banks	**1.92%**	50,000	35,400	15,400	-	-	-	**100,800**
Qard Hasan from Head office	**-**	-	-	-	-	-	37,005	**37,005**
Customer Wakala deposit	**4.52%**	239	57,314	74,537	70,821	17,881	-	**220,792**
Other liabilities	**-**	-	-	-	-	-	28,407	**28,407**
Equity of unrestricted investment accountholders	**2.38%**	53,456	-	-	-	-	27	**53,483**
Owner's equity		-	-	-	-	-	79,021	**79,021**
Equity of accountholders & Total liabilities and shareholders' equity		**118,598**	**118,793**	**104,840**	**70,821**	**36,510**	**168,960**	**618,522**
On-balance sheet gap		**(39,529)**	**(82,419)**	**(65,510)**	**143,639**	**156,275**	**(112,456)**	**-**
Cumulative profit sensitivity gap		**(39,529)**	**(121,948)**	**(187,458)**	**(43,819)**	**112,456**	**-**	**-**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.7. RATE OF RETURN RISK (continued)

6.7.2. QUANTITATIVE DISCLOSURE (continued)

2. Sensitivity Analysis

As per the sensitivity analysis of profit rate movement by 200 basis points on the rate sensitive assets and liabilities the impact is OMR (000) 28,797 on the Net worth of Maisarah.

6.8. DISPLACED COMMERCIAL RISK

6.8.1. QUALITATIVE DISCLOSURE

1. Displaced Commercial Risk (DCR) refers to the market pressure to pay returns which exceed the rate that has been actually earned on each category of deposit. Reason may be underperforming assets as compared to market rates or commitment to retain customers by giving higher returns. To cater for DCR, to avoid fluctuations in the profits and to cater the risk of future losses, Maisarah maintains a certain percentage of the profits as PER and IRR in accordance with the detailed profit and loss distribution policy.

6.8.2. QUANTITATIVE DISCLOSURE

1. Disclosure of Historical Data Over the Past Years

Details	Position as at				
	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000	Dec 2017 RO'000	Dec 2016 RO'000
Total profits available for sharing	30,310	26,240	23,498	20,070	13,857
Profit available for IAH before smoothing	1,354	1,136	405	376	200
Profit paid to IAH after smoothing	1,065	898	202	201	119

Details	Position as at				
	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000	Dec 2017 RO'000	Dec 2016 RO'000
PER	22	16	11	7	4
IRR	5	4	3	2	1

2. Five-Year Comparison of Historical Rate of Return with Market Benchmark Rate

No market benchmark rate is available for comparison purpose.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.8. DISPLACED COMMERCIAL RISK (continued)

6.8.2. QUANTITATIVE DISCLOSURE (continued)

3. Five-Year Comparison Between Return to IAHs and Return to Shareholders

Deposit Category	Position as at				
	Dec 2020 RO'000	Dec 2019 RO'000	Dec 2018 RO'000	Dec 2017 RO'000	Dec 2016 RO'000
Investment Account Holders					
Saving accounts (RO)	0.57%	0.60%	0.66%	0.95%	1.67%
Saving accounts (USD)	0.19%	-	0.22%	0.19%	1.03%
Prize Saving Account	0.59%	0.61%	0.64%	0.99%	1.06%
Mudaraba 1-M	-	-	-	-	-
Mudaraba 3-M	-	-	-	-	1.25%
Mudaraba 6-M	-	-	-	-	-
Mudaraba 12-M	-	-	-	-	-
Equity	5.86%	5.82%	5.90%	4.23%	4.89%

4. Profit Appropriated to PER and IRR

Appropriation of profit to PER and IRR is provided under disclosure (ii) of 4.2.2.

5. Analysis of difference between aggregate Mudaraba earned profits and profits distributed

Details	RO'000
Total profits available for distribution to IAH	1,354
- Mudarib fee charged by Maisarah	(282)
- PER	(6)
- IRR	(1)
Profit distributed to IAH	**1,065**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (continued)

6.8. DISPLACED COMMERCIAL RISK (continued)

6.8.2. QUANTITATIVE DISCLOSURE (continued)

6. Analysis of the proportion of the RWA funded by IAH

Details	RWA RO'000	RWA %
Assets		
- Murabaha	2,241	5.50%
- Diminishing Musharaka	25,846	63.50%
- Ijarah Muntahia Bittamleek	1,677	4.12%
- Wakala financing	4,941	12.14%
- Mudaraba financing	3,905	9.59%
- Investment in Sukuk	1,738	4.27%
- Wakala placement	144	0.35%
- Murabaha and Musawamah inventory	6	0.01%
- Advances	212	0.52%
Total assets funded by IAH (allocated based on proportion)	**40,710**	**100.00%**

6.9. CONTRACT-SPECIFIC RISKS

6.9.1. QUALITATIVE DISCLOSURE

1. For the purpose of various types of Shari'a compliant financing contracts, the Bank assigns the risk-weightage based on the purpose of financing as well as the risk profile of the customer as prescribed in IBRF.

6.9.2. QUANTITATIVE DISCLOSURE

1. RWA Classified by Shari'a Compliant Financing Contracts

Sr.No.	Details	RWA RO'000
1	Murabaha and other receivables	24,713
2	Mudaraba Financings	41,861
3	Ijarah Assets	17,978
4	Diminishing Musharaka Financing	277,059
5	Wakala Financing	52,961
	Total	**414,572**

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES

7.1. GENERAL GOVERNANCE DISCLOSURES

7.1.1. QUALITATIVE DISCLOSURE

1. Maisarah follows Financial Accounting Standard issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as required by the regulations of the Central Bank of Oman. There had been no departure from the financial reporting framework of AAOIFI during the year.

2. Being the Islamic window operation of the Bank, Maisarah is managed under the same governance structure as the Bank. The details of which are disclosed in the main Pillar III document of the Bank. In addition, Maisarah's operations are governed and monitored by the Shari'a Supervisory Board (SSB) details of which is provided under disclosure 7.2.

3. In the ordinary course of business, Maisarah conducts transactions with some of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

Related parties' transactions	2020 RO'000	2019 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**517**	822
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**24,458**	35,463
Other transactions		
Rental payment to a related party	**306**	306
Income from finance to related parties	**19**	37
Profit expense on deposits from related parties	**1,455**	1,811
Key management compensation		
Salaries and other benefits	**417**	267
End of service benefits	**6**	10

4. Maisarah has always participated in conducting investor / consumer education programs through the year. However, during this year due to pandemic (COVID-19) situation no such program has been conducted.

5. Complaint management of Maisarah customers is handled at the parent entity level through the Guest Relation Department. The department has a written procedures and process whereby it handles the complaints receive through branches, emails, call centers. The complaints are lodged and a proper resolution mechanism in place including escalations as well as follow up with concerned departments and customers.

6. During this year, due to pandemic (COVID-19) situation, Maisarah has conduction only one event. However, the window is committed toward playing an important role in fulfilling its responsibility towards the society by having such events in upcoming years after the pandemic situation.

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES (continued)

7.2. SHARI'A GOVERNANCE DISCLOSURES

7.2.1. QUALITATIVE DISCLOSURE

1. The most distinct feature of any Islamic bank is its compliance with the principles of Shari'a in all its activities, operations, transactions and investments. To ensure compliance with the rules and principles of Shari'a, Maisarah has a fully independent setup of Shari'a Governance system.

The Shari'a Compliance and Audit Department have been setup with the purpose of examination and assessment of the extent to which the Institution is observing Shari'a Principles, Fatwas, guidelines and instructions issued by the Shari'a Supervisory Board (SSB) of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments. During 2020, the department has conducted 13 audits as compared to the target of 13. The Unit comes under the direct supervision of SSB. The SSB met 5 times (including 1 meeting with Board of Directors) in the year 2020.

2. Maisarah is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

3. Shari'a rulings issued by the Shari'a Supervisory Board is binding on Maisarah.

7.2.2. QUANTITATIVE DISCLOSURE

1. Violation of Shari'a Compliance During the Year

During the year, Maisarah recorded and transferred to charity the Non Shari'a compliant income of RO 7 thousand in respect of rebate received on nostro accounts, late payments from customers and income from placement with Central Bank.

2. Zakat Contributions of the Islamic Window

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

3. Remuneration of Shari'a Board Members

Details	2020 RO'000	2019 RO'000
Chairman		
- Remuneration proposed	**9**	9
- Sitting fees paid	**2**	2
Other Members		
- Remuneration proposed	**29**	29
- Sitting fees paid	**8**	8

8. BASEL III

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

8.1. CAPITAL DISCLOSURE

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus [Note 1]	70,000	
2	Retained Earnings	11,099	
3	Accumulated other comprehensive income (and other reserves)	-	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public Sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	
6	**Common Equity Tier 1 Capital before regulatory adjustments**	81,099	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	2,260	
8	Goodwill (net of related tax liability) *	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability) *	-	
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 loss	-	
13	Securitization gain on sale (as set out in para 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 10% of the issued share capital (amount above 10% threshold)	-	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
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	-	
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
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**	2,260	
29	**Common Equity Tier 1 capital (CET 1)**	78,839	
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
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 CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 capital before regulatory adjustments**	-	

Maisarah Islamic Banking Services - window of BankDhofar SAOG
DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.
For the year ended 31 December 2020

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments		Amount Subject to Pre-Basel III treatment
		(RO '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, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1**	-	
44	**Additional Tier 1 capital (CET 1)**	-	
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	78,839	
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	-	
48	Tier 2 instruments (and CET 1 and AT 1 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 and Cumulative fair value gains on available for sale instruments	5,632	
51	**Tier 2 capital before regulatory adjustments**	5,632	
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
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 10% threshold)	-	
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
57	**Total Regulatory Adjustments to Tier 2 capital**	-	
58	**Tier 2 Capital (T 2)**	5,632	
59	**Total Capital (TC = T 1 + T 2)**	84,471	
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment		
	of which: (insert name of adjustment)		
	of which: (insert name of adjustment)		
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	576,695	
60a	of which: Credit Risk Weighted Assets	501,974	
60b	of which: Market Risk Weighted Assets	17,375	
60c	of which: Operational Risk Weighted Assets	57,346	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.67%	
62	Tier 1 (as a percentage of risk weighted assets)	13.67%	
63	Total capital (as a percentage of risk weighted assets)	14.65%	
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	
65	of which: capital conservation buffer requirement	1.25%	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Amount Subject to Pre-Basel III treatment
		(RO '000)	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.45%	
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	
71	National total capital minimum ratio (if different from Basel III minimum)	NA	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
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)	-	
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)	5,632	
77	Cap on inclusion of provisions in Tier 2 under standardized approach	6,275	
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 CET 1 instruments subject to phase out arrangements	NA	
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	
84	Current cap on T 2 instruments subject to phase out arrangements	NA	
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

	CA Report 1 (For CBO Use only)	RO ' 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	81,099
2	Regulatory Adjustments to CET1	2,260
3	CET1	78,839
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	-
5	Regulatory Adjustments to AT1	-
6	AT1	-
7	Tier 1 Capital (7=3+6) (minimum at 0.625%)	78,839
8	Tier 2 Capital before Regulatory Adjustments	5,632
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	5,632
11	Total Capital (11=7+10)	84,471
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	576,695
13	Credit Risk Weighted Assets	501,974
14	Market Risk Weighted Assets	17,375
15	Operational Risk Weighted Assets	57,346
16	CET1 (as a percentage of TRWA) (in %)	13.67
17	Tier 1 (as a percentage of TRWA) (in %)	13.67
18	Total capital (as a percentage of TRWA) (in %)	14.65

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2020	As at Period End - 31.12.2020	
Assets			
Cash & Balances with CBO	**14,823**		
Balances with bank and money at call and short notice	**8,840**		
Investments:	**79,995**		
Of which **Held to Maturity**			
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which **Available for Sale**	79,995		
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which **Held for Trading**			
Loans & Advances	**483,556**		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non-Resident Banks			
Loans & Advances to domestic customers	468,329		
Loans & Advances to Non-Resident Customers for domestic operations			
Loans & Advances to Non-Resident Customers for operations abroad			
Loans & Advances to SMEs	15,227		

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2020	As at Period End - 31.12.2020	
Financing from Islamic Banking Window			
Fixed Assets	**983**		
Other Asset	**39,629**		
Of which,			
Goodwill & Intangible Assets			a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	**627,826**	-	
Capital & Liabilities			
Paid up capital	**70,000**		
of which:			
Amount eligible for CET 1	70,000		h
Amount eligible for AT1	-		if
Reserves & Surplus			j
Share Premium	-		k
Legal Reserve	-		l
Subordinated loan reserve	-		m

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Reconciliation of reported balance sheet and the regulatory scope of consolidation:			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2020	As at Period End - 31.12.2020	
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(2,078)	(2,260)	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	11,099	11,099	o
Total Capital	**79,021**		
Deposits	**373,262**		
Of which,			
Deposit from Banks			
Customer Deposits	373,262		
Deposit of Islamic Banking Window	-		
Other deposits - (Please specify)			
Borrowings	**137,805**		
Of which,			
From CBO			
From Banks (includes borrowing from HO)	137,805		
From other Institutions & Agencies			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Please specify) (Subordinated Loans)			
Other liabilities & provisions	**37,738**		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	**627,826**	**9,021**	

8. BASEL III (continued)

8.1. CAPITAL DISCLOSURE (continued)

Common Equity Tier 1 capital: instruments and reserves			
Sr. No.		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 'Allocated Capital to Window from Core Capital'	70,000	h
2	Retained earnings	11,099	k,l,m,o
3	Accumulated other comprehensive income (and other reserves)		
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	81,099	
7	Prudential valuation adjustments	(2,260)	n
8	Goodwill (net of related tax liability)	-	a

8.2. LIQUIDITY COVERAGE RATIO

MIBS has also adopted Basel III liquidity standards and is estimating the liquidity coverage ratio (LCR). The LCR is defined as the proportion of high-quality liquid assets to total net cash outflows over the next 30 days. The high-quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Sovereign Sukuk and Sovereign Treasury Bills. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

8. BASEL III (continued)

8.2. LIQUIDITY COVERAGE RATIO (continued)

The disclosure Liquidity Coverage Ratio for Maisarah is as follows:

Sl. No.		Total Unweighted Value (annual average) OMR '000	Total Weighted Value (annual average) OMR '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		80,424
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	54,488	3,694
3	Stable deposits	32,610	1,506
4	Less stable deposits	21,878	2,188
5	Unsecured wholesale funding, of which:	177,898	86,295
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	177,898	86,295
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	28,614	2,708
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	28,614	2,708
14	Other contractual funding obligations	5,661	5,661
15	Other contingent funding obligations	27,544	1,377
16	**TOTAL CASH OUTFLOWS**		**99,735**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	102,914	21,751
19	Other cash inflows	9,166	9,166
20	**TOTAL CASH INFLOWS**	**112,080**	**30,917**
			Total Adjusted Value
21	**TOTAL HQLA**		**82,017**
22	**TOTAL NET CASH OUTFLOWS**		**68,818**
23	**LIQUIDITY COVERAGE RATIO (%)**		**119.18%**

8. BASEL III (continued)

8.2. LIQUIDITY COVERAGE RATIO (continued)

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the values for the last 12 months.

The LCR position for Maisarah as at 31 December 2020 is 511.95% (2019: 191.26%).

Further to the above, LCR is also monitored for US Dollar book of the Bank as a Consolidated entity and Maisarah on standalone basis. The exposure in US Dollar assets as a proportion of total assets (all currencies) at the Maisarah level is at 5.13% as at 31 December 2020 as compared to 13.41% as at 31 December 2019.

8.3. NET STABLE FUNDING RATIO

In terms of CBO guidelines, the standard for NSFR has become effective from 1 January 2018, with a minimum ratio of 100%. Bank has adopted Basel III liquidity standards and is reporting the Net Stable Funding Ratio to the Central Bank of Oman (CBO) with effect from March 2013. The NSFR is defined as the proportion of total Available Stable Funding to total Required Stable funding over the next 1 year.

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

The disclosure for Net Stable Funding Ratio for Maisarah is as follows:

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
1	Capital:	216,598	216,598	-	-	216,598
2	Regulatory capital	97,221				97,221
3	Other capital instruments	119,377				119,377
4	Retail deposits and deposits from small business customers:	51,564	8,241	19,254	-	68,794
5	Stable deposits	30,907	365	1,060		32,621
6	Less stable deposits	20,657	7,876	18,194		36,172
7	Wholesale funding:	-	-	189,785	94,893	94,893
8	Operational deposits	-				-
9	Other wholesale funding			189,785		94,893
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	108,401				-
14	**Total ASF**					**380,284**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					76,456
16	Deposits held at other financial institutions for operational purposes	1,259				629
17	Performing loans and securities:	-	9,456	115,352	200,140	232,199

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
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			-		-
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		9,456	115,352		62,080
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:				200,139	170,118
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				154,245	100,259
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				-	-
25	Assets with matching interdependent liabilities					
26	Other Assets:	-	-		12,489	12,489
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					-

8. BASEL III (continued)

8.3. NET STABLE FUNDING RATIO (continued)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories				12,489	12,489
32	Off-balance sheet items					61,753
33	**TOTAL RSF**					**383,526**
34	**NET STABLE FUNDING RATIO (%)**					**99.15%**

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the values for the last 12 months reflecting average during the year 2020. The NSFR is computed on a monthly basis and year end position for Maisarah as at 31 December 2020 was at 104.07% (2019: 117.46%).

MAISARAH INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENT

31st DECEMBER 2020

Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - 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 Maisarah Islamic Banking Services - Window ('the Window') of Bank Dhofar 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 sources and uses of charity fund for the year then ended;
- the statement of cash flows 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.

Emphases of matter

We draw attention to the fact that, as described in note 1, the Window of the Bank is not a separate legal entity. These financial statements, therefore, represent the Maisarah Islamic Banking Services - Window which is not a separate stand-alone legal entity.

We also draw attention to note 3.21 whereby taxation in respect of the results of the Window are borne by the Bank and not recharged to the Window. Our opinion is not modified with respect to these matters.

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Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - Window (continued)

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.

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Independent Auditor's Report to the Board of Directors of Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - 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 Bank Dhofar SAOG on the financial statements of Maisarah Islamic Banking Services - 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 Sharia' Supervisory Board of the Window during the period under audit.

PricewaterhouseCoopers.

Muscat, Sultanate of Oman
10 March 2021

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C.R. No 1230865
PricewaterhouseCoopers LLC

Statement of Financial Position

For the year ended 31 December 2020

2020 USD'000	2019 USD'000		Note	2020 RO'000	2019 RO'000
		Assets			
38,501	113,977	Cash and balances with Central Bank of Oman	5	**14,823**	43,881
22,959	64,273	Due from banks and financial institutions	6	**8,839**	24,745
61,917	50,800	Murabaha and other receivables	7	**23,838**	19,558
34,083	48,613	Mudaraba financing	8	**13,122**	18,716
882,995	836,179	Diminishing Musharaka financing	9	**339,953**	321,929
207,444	162,236	Investments	10	**79,866**	62,461
134,785	103,686	Wakala financing	11	**51,892**	39,919
120,039	119,177	Ijarah Muntahia Bittamleek	12	**46,215**	45,883
1,236	1,486	Property and equipment	13	**476**	572
1,317	1,493	Intangibles	14	**507**	575
101,275	17,384	Other assets	15	**38,991**	6,693
1,606,551	1,519,304	**Total assets**		**618,522**	584,932
		Liabilities, equity of investment accountholders and owners' equity			
		Liabilities			
257,179	292,203	Current accounts	16	**99,014**	112,498
261,818	178,961	Due to banks	17	**100,800**	68,900
96,117	68,003	Qard Hasan from Head office	18	**37,005**	26,181
573,486	658,192	Customer Wakala term deposits		**220,792**	253,404
73,785	25,805	Other liabilities	19	**28,407**	9,935
1,262,385	1,223,164	**Total liabilities**		**486,018**	470,918
138,917	102,179	**Equity of investment accountholders**	20	**53,483**	39,339
		Owners' equity			
181,818	142,857	Allocated share capital	21	**70,000**	55,000
(5,397)	229	Investment revaluation reserve		**(2,078)**	88
28,828	50,875	Retained earnings		**11,099**	19,587
205,249	193,961	**Total owners' equity**		**79,021**	74,675
		Total liabilities, equity of investment			
1,606,551	1,519,304	**Accountholders and owners' equity**		**618,522**	584,932
76,247	69,140	**Contingent liabilities and commitments**	29	**29,355**	26,619

The financial statements including notes and other information on pages 340 to 413 were approved by the Board of Directors on 28 January 2021 for issue in accordance with a resolution of Board of Directors and signed on their behalf by:

Chairman

Chief Islamic Banking Officer

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Statement of Comprehensive Income

For the year ended 31 December 2020

2020 USD'000	2019 USD'000		Note	2020 RO'000	2019 RO'000
		Income			
78,668	67,759	Income from Islamic finances and investments	23	**30,287**	26,087
60	397	Income on Wakala placements		**23**	153
78,728	68,156			**30,310**	26,240
		Less:			
(3,499)	(2,935)	Return on equity of investment accountholders before Maisarah's share as Mudarib		**(1,347)**	(1,130)
732	603	Maisarah's share as Mudarib		**282**	232
(30,990)	(29,727)	Return on customer Wakala deposits	24	**(11,931)**	(11,445)
(4,917)	(3,842)	Return on interbank Wakala deposits		**(1,893)**	(1,479)
(38,674)	(35,901)			**(14,889)**	(13,822)
40,054	32,255	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		**15,421**	12,418
4,122	4,696	Revenue from banking services		**1,587**	1,808
343	1,075	Foreign exchange gain – net		**132**	414
538	413	Other revenues		**207**	159
45,057	38,439	**Total revenue**		**17,347**	14,799
(13,408)	(12,821)	Staff costs	25	**(5,162)**	(4,936)
(4,914)	(4,306)	General and administrative expenses	26	**(1,892)**	(1,658)
(1,184)	(1,294)	Depreciation and amortisation	13,14	**(456)**	(498)
(19,506)	(18,421)	**Total expenses**		**(7,510)**	(7,092)
(8,635)	(1,906)	Net impairment on financial instruments	27.3	**(3,325)**	(734)
-	(8)	Bad debts written off		**-**	(3)
16,914	18,104	**Profit for the year**		**6,512**	6,970
		Other comprehensive income / (loss) for the year			
		Items that are or may not be reclassified to profit or loss			
(5,626)	1,655	Gain / (loss) from change in fair value of Debt instrument at FVOCI	10	**(2,166)**	637
(5,626)	1,655	**Other comprehensive income / (loss) for the year**		**(2,166)**	637
11,288	19,759	**Total comprehensive income for the year**		**4,346**	7,607

The attached notes on pages 340 to 413 form an integral part of these financial statements.

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Statement of Changes in Equity

For the year ended 31 December 2020

	31 December 2020			
	Allocated share capital RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance at 31 December 2019	**55,000**	**88**	**19,587**	**74,675**
Transfer of retained earnings to Head Office	-	-	(15,000)	**(15,000)**
Allocation of capital	15,000	-	-	**15,000**
Total comprehensive income for the year				
Net profit for the year	-	-	6,512	**6,512**
Other comprehensive (loss) for the year				
Fair value change on debt investments through equity	-	(2,166)	-	**(2,166)**
Total comprehensive income	-	(2,166)	6,512	**4,346**
Balance as at 31 December 2020	**70,000**	**(2,078)**	**11,099**	**79,021**

	31 December 2020			
	Allocated share capital USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000
Balance at 31 December 2019	**142,857**	**229**	**50,875**	**193,961**
Transfer of retained earnings to Head Office	-	-	(38,961)	**(38,961)**
Allocation of capital	38,961	-	-	**38,961**
Total comprehensive income for the year				
Net profit for the year	-	-	16,914	**16,914**
Other comprehensive (loss) for the year				
Fair value change on debt investments through equity	-	(5,626)	-	**(5,626)**
Total comprehensive income	-	(5,626)	16,914	**11,288**
Balance as at 31 December 2020	**181,818**	**(5,397)**	**28,828**	**205,249**

Statement of Changes in Equity

For the year ended 31 December 2020

	31 December 2019			
	Allocated share capital RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance at 31 December 2018	55,000	(549)	12,617	67,068
Total comprehensive income for the year				
Net profit for the year	-	-	6,970	6,970
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	637	-	637
Total comprehensive income	-	637	6,970	7,607
Balance as at 31 December 2019	55,000	88	19,587	74,675

	31 December 2019			
	Allocated share capital USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000
Balance at 31 December 2018	142,857	(1,426)	32,771	174,202
Total comprehensive income for the year				
Net profit for the year	-	-	18,104	18,104
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	1,655	-	1,655
Total comprehensive income	-	1,655	18,104	19,759
Balance as at 31 December 2019	142,857	229	50,875	193,961

Statement of sources and uses of charity fund

For the year ended 31 December 2020

2020 USD'000	2019 USD'000		2020 RO'000	2019 RO'000
		Sources of charity funds		
13	43	Undistributed charity funds at beginning of the year	**5**	17
17	13	Sharia non-compliant income	**7**	5
30	56	Total sources of funds during the year	**12**	22
		Uses of charity funds		
(13)	(43)	Distributed to charity organizations	**(5)**	(17)
(13)	(43)	Total uses of funds during the year	**(5)**	(17)
17	13	Undistributed charity funds at end of the year	**7**	5

Statement of Cash Flows
For the year ended 31 December 2020

2020 USD'000	2019 USD'000		2020 RO'000	2019 RO'000
		Cashflows from operating activities		
16,914	18,104	Profit for the year	**6,512**	6,970
		Adjustments for:		
1,184	1,294	Depreciation and amortisation	**456**	498
7,151	8,727	Depreciation on Ijarah assets	**2,753**	3,360
8,637	1,906	Net impairment on financial instruments	**3,325**	734
-	8	Bad debts written off	**-**	3
169	21	Amortisation of premium / (discount) on investment	**65**	8
19	16	Profit equalisation reserve and Investment risk reserve	**7**	6
34,074	30,076	**Operating profit before changes in operating assets and liabilities**	**13,118**	11,579
		Operating assets and liabilities:		
(11,262)	12,831	Murabaha and other receivables	**(4,336)**	4,940
(8,475)	(9,281)	Ijarah Muntahia Bittamleek assets	**(3,263)**	(3,573)
340	494	Proceeds from sale of Ijarah Muntahia Bittamleek assets	**131**	190
(54,442)	(107,296)	Diminishing Musharaka financing	**(20,960)**	(41,309)
14,455	19,971	Mudaraba financing	**5,565**	7,689
(31,187)	(55,190)	Wakala financing	**(12,007)**	(21,248)
(26,106)	(7,774)	Other asset	**(10,050)**	(2,993)
(10,762)	1,258	Other liabilities	**(4,143)**	484
1,764	(699)	Qard Hasan from Head Office (operational activities)	**679**	(269)
(91,601)	(115,610)	**Net cash used in operating activities**	**(35,266)**	(44,510)
		Cash flows from investing activities		
(93,514)	(112,987)	Purchase of investment	**(36,003)**	(43,500)
42,501	60,109	Sale proceed from maturity of investments	**16,363**	23,142
(51,013)	(52,878)	**Net cash used in investing activities**	**(19,640)**	(20,358)
		Cash flows from financing activities		
(35,023)	146,644	Current account	**(13,484)**	56,458
60,909	110,000	Due to banks	**23,450**	42,350

2020 USD'000	2019 USD'000		2020 RO'000	2019 RO'000
25,974	-	Qard Hasan from Head Office (financing activities)	**10,000**	-
(84,706)	(25,753)	Customer Wakala deposit	**(32,612)**	(9,915)
36,719	13,748	Unrestricted investment accountholders	**14,137**	5,293
3,873	244,639	**Net cash (used) in / generated from financing activities**	**1,491**	94,186
(138,741)	76,151	**(Decrease)/increase in cash and cash equivalents**	**(53,415)**	29,318
109,294	33,143	Cash and cash equivalents at the beginning of the year	**42,078**	12,760
(29,447)	109,294	Cash and cash equivalents at the end of the year	**(11,337)**	42,078
		Cash and cash equivalents at the end of the year comprise:		
38,501	113,977	Cash and balances with CBO	**14,823**	43,881
22,961	64,278	Due from banks and financial institutions	**8,840**	24,747
(90,909)	(68,961)	Due to banks	**(35,000)**	(26,550)
(11,337)	42,078		**(11,337)**	42,078

The principal non-cash transactions for the year ended 31 December 2020 consist mainly of the following:

- Increase of RO 15 million in allocated share capital against the transfer of retained earnings to Head Office (note 21).

The attached notes on pages 340 to 413 form an integral part of these financial statements.

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1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in the Sultanate of Oman as window of Bank Dhofar SAOG ("the Bank"). Maisarah's operations commenced on 3 March 2013 and it currently operates through 10 (2019: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking Shari'a compliant demand, saving and time deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

The window is not a separate legal entity. The assets and liabilities presented within the 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 window may be available to the other claims of the Bank. The separate financial statements of Islamic Banking 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 Islamic Banking Regulatory Framework (IBRF) issued by CBO.

2. BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") as modified by CBO for impairment of financing and other receivables, and investments (refer note 3.10); the Shari'a rules and principles as determined by the SSB of Maisarah; and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB") provided the application does not lead to a conflict with the principles of Shari'a.

These financial statements pertain to the Maisarah operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in Zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through equity.

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are presented and measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgements

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

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

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

2.5 Change in accounting policy

The accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.6 New standards, interpretations and amendments

For the year ended 31 December 2020, the Islamic window has adopted all of the amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2020.

The adoption of these standards has not resulted in changes to the Islamic Window accounting policy and has not affected the amounts reported for the current and prior periods.

Standards issued but not effective from 01 January 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. Maisarah had adopted the IFRS 9, which is similar to FAS 30, with effect from 1 January 2018 and as permitted by IFRS 9, Maisarah elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interests of the current period.

Since the window already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2021 is not expected to result in significant changes.

2. BASIS OF PREPARATION (continued)

2.6 New standards, interpretations and amendments (continued)

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.

The Bank has assessed the standard and based on the assessment of the standard, there is no financial impact on the window, however, some changes will be required in presentation, disclosure and classification of Wakala deals. Maisarah has opted to classify the Wakala assets under Wakala Venture classification criteria including the profit receivable amount. Wakala deposit will be qualified for on-balance accounting approach and reported as quasi-equity.

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. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

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 standard is not expected to have a material impact on Maisarah's financial statements.

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. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

2. BASIS OF PREPARATION (continued)

2.6 New standards, interpretations and amendments (continued)

FAS 35 Risk Reserves (continued)

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". Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

3.2 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 Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.4 Murabaha and other receivables

Murabaha and Musawama receivables are stated net of deferred profits, any amounts written off and provision for expected credit losses, if any.

In these transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis. Unlike Murabaha, it is not necessary to disclosure the profit element to the customer in Musawama.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Murabaha and other receivables (continued)

Murabaha and Musawama receivables are sales on spot / deferred payment terms. The Bank arranges a transaction by buying goods (which represents the object of underlying contract) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Credit card receivable is based on the Islamic financial principle of profit-free Qard Hasan whereby the customer is required to repay the disbursed amount without any profit. In addition, the customer will be charged a monthly fees which could be waived off at the discretion of bank. Other receivable also include travel and education finance which is based on the Islamic financial principle of Service Ijarah where by the Bank purchases the service from service providers and then leases that service to the customer for an agreed service charge.

3.5 Mudaraba

Mudaraba is stated at the fair value of consideration given less any expected credit losses.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case Mudaraba capital is lost or damaged without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by Mudarib is recognised as receivable due from Mudarib.

3.6 Diminishing Musharaka

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any expected credit losses.

3.7 Wakala

Wakala is a contract where the Bank (the Muwakil) will enter into Wakala Agreement with the customer (the Wakil) and will establish a contractual and commercial relations between the parties by providing Wakala capital (Ras al Mal) to be utilized in customer's core business. The Wakil provides specialist work using its skills to manage the business.

3.8 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Investments

Investments comprise of equity type instruments carried at fair value through equity or statement of income, and debt type instruments carried at fair value through equity or at amortised cost.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investment carried at fair value through statement of income, if any.

Equity / debt type instruments at fair value through equity

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner's equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Impairment losses on instruments carried at fair value through equity are not reversed through the statement of income.

Equity / debt type instruments at fair value through income

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with unrealised gains or losses recognised in the statement of income. All other gains or losses arising from these investments are also recognised in the statement of income.

Debt type instruments at amortised cost

Investments which have fixed or determinable payments and where Maisarah 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 provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognised in the statement of income, when the instruments are de-recognised or impaired.

Fair value is determined for each investment 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 value 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL as per IFRS 9:

- balances with Central Bank of Oman
- due from banks
- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued
- financing commitments issued; and
- other assets (acceptances and accrued profit).

No ECL is recognised on equity investments.

The Islamic window measures impairment provision 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 (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

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

Impairment provision is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

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

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

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.

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 Maisarah expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

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

Credit impaired financial assets

At each reporting date, Maisarah assesses whether financial assets carried at amortised cost and debt securities carried at fair value through equity are credit-impaired.

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

.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

Credit impaired financial assets (continued)

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

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

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

Credit impaired financial assets

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

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

Forward-looking information

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

Macroeconomic factors

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

Assessment of significant increase in credit risk

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

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

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

Definition of default

Maisarah considers a financial asset to be in default when:

- The counterparty 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 held (if any); or
- The counterparty is past due more than 90 days on any material credit obligation to the Islamic window.

Credit facilities like overdrafts, line of credit etc. where no definite repayments are pre-determined are treated as past due if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where the outstanding balance in the principal operating account is less than the sanctioned / authorized limit, but there are not enough credits in the account to cover the profit charged or unauthorized drawings have frequently been allowed.

In assessing whether a counterparty 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

Definition of default (continued)

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 Islamic window follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent).

For accounting of restructuring and modification losses, refer note 32.3.4.

3.11 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write-off the cost of property and equipment, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

	Year
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer hardware	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of profit or loss as an expense when incurred.

3.12 Intangibles

Intangible assets, including computer software and core banking system, are amortised over their estimated useful life of 5-10 years and carried net of accumulated amortisation and impairment losses.

3.13 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Equity of investment accountholders (continued)

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.14 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for equity of investment accountholders.

3.15 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib's share, to cater against future losses for equity of investment accountholders.

3.16 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.17 Earnings prohibited by Shari'a

All the funds mobilised and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari'a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.18 Zakah

The responsibility of payment of Zakah is on individual shareholders and investment accountholders.

3.19 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the equity of investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.20 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue recognition

3.21.1 Murabaha and Musawama receivables

Profit from Murabaha and Musawama receivables are recognised on time apportioned basis from the date of contract. Income related to non-performing accounts is excluded from statement of profit or loss.

3.21.2 Diminishing Musharaka (DM) Financing

Income from Diminishing Musharaka is recognised on time-apportioned basis over the lease term from the Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of profit or loss.

3.21.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of profit or loss on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of profit or loss.

3.21.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of profit or loss.

3.21.5 Wakala financing

Wakala profit is estimated reliably and recognized on time-apportioned basis so as to yield the expected rate of return based on the Wakala capital outstanding. In case of default, negligence or violation of any of the terms and conditions of Wakala agreement, the Wakil would bear the loss, otherwise the loss would be borne by the Muwakil.

3.21.6 Dividends

Dividends are recognised when the right to receive payment is established.

3.21.7 Fee and Commission income

Fee and commission income is recognised when earned.

3.21.8 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

3.21.9 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21.10 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

3.22 Taxation

Maisarah is an Islamic banking window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws of Oman. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accordingly income tax is accounted for as per IFRS in the financial statements of Bank Dhofar SAOG. Currently, Bank Dhofar SAOG does not allocate income tax charge to Maisarah. The notional tax expense on Maisarah's result for the year at the statutory effective tax rate would amount to RO 977 thousand (2019: RO 1,046 thousand). Had the taxation been allocated, following would have been the impact:

	2020 RO'000	2019 RO'000
Profit after tax	**5,535**	5,924
Retained earnings	**7,064**	16,529
Capital adequacy ratio	**13.97%**	14.54%

3.23 Employees' benefits

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

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

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

3.24 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

S. NO.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman
3	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
4	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 Trade date accounting

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

3.26 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

3.27 Fiduciary assets

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

4. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

1. Significant increase in credit risk

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

2. Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

3. Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

4. Critical Accounting Judgment and Key Sources of Estimation Uncertainty (continued)

4. Key sources of estimation uncertainty

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default (PD): constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default (LGD): is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

5. 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.

5. Cash and balances with Central Bank of Oman

	2020 RO'000	2019 RO'000
Cash in hand	**3,014**	2,773
Balances with Central Bank of Oman	**11,809**	41,108
	14,823	43,881

6. Due from banks and financial institutions

	2020 RO'000	2019 RO'000
Wakala placement – jointly financed	**7,700**	23,100
Current clearing account – self financed	**1,140**	1,647
	8,840	24,747
Less: Impairment allowance for ECL (note 27)	**(1)**	(2)
	8,839	24,745

At 31 December 2020, placement with one overseas banks individually represented 20% or more of the Islamic window's placements (2019: Two banks represented 20% or more).

7. Murabaha and other receivables

	2020 RO'000	2019 RO'000
Gross Murabaha receivables – jointly financed	**27,090**	22,673
Gross Ujrah receivables – jointly financed	**23**	19
	27,113	22,692
Less: Deferred income – jointly financed	**(3,661)**	(3,602)
	23,452	19,090
Credit card receivables – self financed	**572**	596
Less: Profit suspended	**(4)**	(2)
Less: Impairment allowance for ECL (note 27)	**(182)**	(126)
	23,838	19,558

Murabaha and other receivables past due but not impaired amounts to RO 426 thousand (2019: RO 659 thousand).

	2020 RO'000	2019 RO'000
Deferred income at 1 January	**3,602**	3,018
Sales revenue during the year	**27,894**	17,147
Cost of sales during the year	**(26,386)**	(15,295)
Profit recognised in income	**(1,432)**	(1,254)
Profit waived off	**(15)**	(12)
Profit amortized during the year	**(1,447)**	(1,266)
Profit suspended	**(2)**	(2)
Deferred income at 31 December	**3,661**	3,602

8. Mudaraba financing

	2020 RO'000	2019 RO'000
Mudaraba financing – jointly financed	**13,331**	18,896
Less: Impairment allowance for ECL (note 27)	**(209)**	(180)
	13,122	18,716

At reporting date, there were no Mudaraba financing cases which were past due but not impaired.

9. Diminishing Musharaka financing

	2020 RO'000	2019 RO'000
Diminishing Musharaka – jointly financed	**347,784**	326,824
Less: Impairment allowance for ECL (note 27)	**(7,831)**	(4,895)
	339,953	321,929

Diminishing Musharaka past due but not impaired amounts to RO 13,840 thousand (2019: RO 66,248 thousand).

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10. Investments

	2020 RO'000	2019 RO'000
Fair value through equity:		
Local listed Sukuk – jointly financed	**9,610**	10,000
International listed Sukuk – jointly financed	**9,019**	10,010
Sovereign Sukuk – jointly financed	**61,366**	32,576
	79,995	52,586
Amortised cost:		
Sovereign Sukuk – jointly financed	**-**	10,000
	79,995	62,586
Less: Impairment provision for ECL (note 27)	**(129)**	(125)
Total Sukuk – jointly financed	**79,866**	62,461

During the year movement in investments at fair value through equity:

	2020 RO'000	2019 RO'000
Debt type instruments		
At 1 January	**52,586**	31,599
Additions	**36,003**	43,500
Disposals and redemptions	**(6,363)**	(23,142)
(Loss) / Gain from change in fair value	**(2,166)**	637
Amortisation of discount / premium	**(65)**	(8)
At 31 December	**79,995**	52,586

11. Wakala financing

	2020 RO'000	2019 RO'000
Wakala financing – jointly financed	**52,017**	40,010
Less: Impairment allowance for ECL (note 27)	**(125)**	(91)
	51,892	39,919

Wakala financing past due but not impaired amounts to RO 38 thousand (2019: RO 549 thousand).

12. Ijarah Muntahia Bittamleek

	2020 RO'000	2019 RO'000
Cost – jointly financed		
at 1 January	**54,577**	52,766
Additions	**3,263**	3,573
Disposals	**(1,867)**	(1,762)
at 31 December	**55,973**	54,577
Accumulated depreciation – jointly financed		
at 1 January	**(8,556)**	(6,768)
Charge for the period	**(2,753)**	(3,360)
Disposals	**1,736**	1,572
at 31 December	**(9,573)**	(8,556)
Net book value at 31 December	**46,400**	46,021
Less: Impairment allowance for ECL (note 27)	**(185)**	(138)
Net Ijarah Muntahia Bittamleek	**46,215**	45,883

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,764 thousand (2019: RO 1,304 thousand).

13. Property and equipment

	2020				
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Capital work in progress RO'000	Total RO'000
Cost					
at 1 January	**1,280**	**78**	**352**	**71**	**1,781**
Additions	**170**	**9**	**-**	**76**	**255**
Disposals / Transfers	**-**	**-**	**-**	**(129)**	**(129)**
at 31 December	**1,450**	**87**	**352**	**18**	**1,907**
Accumulated depreciation					
at 1 January	**(873)**	**(70)**	**(266)**	**-**	**(1,209)**
Charge for the year	**(172)**	**(7)**	**(43)**	**-**	**(222)**
Disposal	**-**	**-**	**-**	**-**	**-**
at 31 December	**(1,045)**	**(77)**	**(309)**	**-**	**(1,431)**
Net book amount at 31 December	**405**	**10**	**43**	**18**	**476**

	2019				
	Furniture, fixtures & equipment RO'000	Motor vehicles RO'000	Computer hardware RO'000	Capital work in progress RO'000	Total RO'000
Cost					
at 1 January	1,224	78	297	2	1,601
Additions	81	-	55	120	256
Disposals / Transfers	(25)	-	-	(51)	(76)
at 31 December	1,280	78	352	71	1,781
Accumulated depreciation					
at 1 January	(702)	(60)	(215)	-	(977)
Charge for the year	(196)	(10)	(51)	-	(257)
Disposal	25	-	-	-	25
at 31 December	(873)	(70)	(266)	-	(1,209)
Net book amount at 31 December	407	8	86	71	572

14. Intangibles

	2020 RO'000	2019 RO'000
Cost		
at 1 January	**1,651**	1,520
Additions	**166**	131
at 31 December	**1,817**	1,651
Accumulated amortisation		
at 1 January	**(1,076)**	(835)
Charge for the year	**(234)**	(241)
at 31 December	**(1,310)**	(1,076)
Net book amount at 31 December	**507**	575

15. Other assets

	2020 RO'000	2019 RO'000
Ijarah rental receivables	**143**	64
Other profit receivables	**13,654**	3,918
Prepayments	**114**	314
Murabaha and Musawama inventory – Jointly financed (15.1)	**68**	946
Advances – Jointly financed (15.2)	**2,274**	909
Others	**101**	116
Acceptances	**23,275**	865
	39,629	7,132
Less: Reserve for suspended profit (note 27)	**(627)**	(390)
Less: Allowance against other assets	**-**	-
Less: Impairment allowance for ECL on accrued profit (note 27)	**(11)**	(49)
Total	**38,991**	6,693

15.1 During 2019 and 2020, all Murabaha and Musawama inventories are held under the binding promise to purchase. During 2019, Murabaha and Musawama inventory was classified under self-financed.

15.2 During 2019, advances were classified under self-financed.

16. Current accounts

	2020 RO'000	2019 RO'000
Qard hasan current accounts	**20,406**	17,044
Wakala call accounts	**74,515**	91,316
Margin accounts	**4,093**	4,138
Total	**99,014**	112,498

17. Due to banks

	2020 RO'000	2019 RO'000
Due to Head Office (Bank Dhofar SAOG)	**70,000**	33,100
Due to banks	**30,800**	35,800
Total	**100,800**	68,900

Due to Head Office and banks comprises of Wakala deposits.

At 31 December 2020, inter bank borrowings with Bank Dhofar SAOG individually represented 20% or more of the Islamic window's due to banks (2019: 2 banks including Bank Dhofar SAOG individually represented 20%).

18. Qard Hasan from Head Office

	2020 RO'000	2019 RO'000
Qard Hasan from Head Office (18.1)	**35,000**	25,000
Current clearing account (18.2)	**2,005**	1,181
Total	**37,005**	26,181

18.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of Maisarah's liquidity management.

18.2 This amount represents the vostro account of Maisarah opened with Head Office.

19. Other liabilities

	2020 RO'000	2019 RO'000
Payables	**434**	518
Accrued expenses	**1,583**	1,277
Profit payables	**2,421**	6,960
Others	**160**	41
Charity payable	**7**	5
Acceptances	**23,275**	865
Impairment allowance for ECL on non-funded exposure (note 27)	**527**	269
Total	**28,407**	9,935

20. Equity of investment accountholders

	2020 RO'000	2019 RO'000
Saving account	**53,456**	39,319
Profit equalisation reserve	**22**	16
Investment risk reserve	**5**	4
Total	**53,483**	39,339

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2020 and 2019 as follows:

	%	%
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of income as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

20. Equity of investment accountholders (continued)

20.1 Movement in profit equalisation reserve

	2020 RO'000	2019 RO'000
Balance as at 1 January	**16**	11
Apportioned during the year	**6**	5
Balance as at 31 December	**22**	16

20.2 Movement in investment risk reserve

	2020 RO'000	2019 RO'000
Balance as at 1 January	**4**	3
Apportioned during the year	**1**	1
Balance as at 31 December	**5**	4

21. Allocated share capital

During 2020, there was an increase in the assigned capital to Maisarah from the core paid up capital of the shareholders amounting to RO 15 million taking the total assigned capital to RO 70 million.

22. Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

23. Income from Islamic finances and investments

	2020 RO'000	2019 RO'000
Murabaha receivables	**1,376**	1,254
Mudaraba	**970**	1,333
Ijarah muntahia bittamleek – net (23.1)	**2,449**	2,429
Diminishing Musharaka	**19,307**	17,110
Wakala financing	**2,825**	1,707
Musawama	**55**	17
Ujrah fees	**1**	1
Profit on investments at fair value through equity	**3,010**	1,886
Profit on investment at amortised cost	**294**	350
	30,287	26,087

23.1 Depreciation on Ijarah Muntahia Bittamleek amounts to RO 2,753 thousand (2019: RO 3,360 thousand).

24. Return on customer Wakala deposits

	2020 RO'000	2019 RO'000
Return allocated to Wakala depositors	**11,931**	11,444
Hiba for Wakala depositors	**-**	1
	11,931	11,445

25. Staff costs

	2020 RO'000	2019 RO'000
Salaries and allowances	**4,410**	4,195
Other personnel cost	**705**	695
Non-Omani employee terminal benefits	**47**	46
	5,162	4,936

26. General and administrative expenses

	2020 RO'000	2019 RO'000
Occupancy cost	**617**	622
Operating and administration cost	**1,275**	1,036
	1,892	1,658

27. Allowance for expected credit losses

27.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2020 and 2019:

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	11,809	-	-	11,809
Due from banks and financial institutions	8,840	-	-	8,840
Murabaha and other receivables	22,793	1,183	48	24,024
Mudaraba financing	2,943	10,388	-	13,331
Diminishing Musharaka financing	291,317	52,146	4,321	347,784
Investments	79,995	-	-	79,995
Wakala financing	30,916	21,031	70	52,017
Ijarah Muntahia Bittamleek	46,248	72	80	46,400
Accrued profit	10,120	3,021	656	13,797
Acceptances	23,086	189	-	23,275
Total funded gross exposure	528,067	88,030	5,175	621,272
Letter of credit / guarantee	20,964	8,391	-	29,355
Financing commitment/unutilised limits	38,328	16,603	-	54,931
Total non-funded gross exposure	59,292	24,994	-	84,286
Total gross exposure	587,359	113,024	5,175	705,558
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(1)	-	-	(1)
Murabaha and other receivables	(130)	(29)	(27)	(186)
Mudaraba financing	(28)	(181)	-	(209)
Diminishing Musharaka financing	(2,140)	(4,279)	(1,412)	(7,831)
Investments	(129)	-	-	(129)
Wakala financing	(63)	(44)	(18)	(125)

27. Allowance for expected credit losses (continued)

27.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2020 and 2019: (continued)

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Ijarah Muntahia Bittamleek	(111)	(21)	(53)	(185)
Accrued profit	(5)	(6)	(627)	(638)
Acceptances	(168)	-	-	(168)
Total funded	(2,775)	(4,560)	(2,137)	(9,472)
Letter of credit / guarantee	(52)	(58)	-	(110)
Financing commitment / unutilised limits	(102)	(147)	-	(249)
Total non-funded	(154)	(205)	-	(359)
Total allowance and profit suspended	(2,929)	(4,765)	(2,137)	(9,831)
Net exposure				
Balances with Central Bank of Oman	11,809	-	-	11,809
Due from banks and financial institutions	8,839	-	-	8,839
Murabaha and other receivables	22,663	1,154	21	23,838
Mudaraba financing	2,915	10,207	-	13,122
Diminishing Musharaka financing	289,177	47,867	2,909	339,953
Investments	79,866	-	-	79,866
Wakala financing	30,853	20,987	52	51,892
Ijarah Muntahia Bittamleek	46,137	51	27	46,215
Accrued profit	10,115	3,015	29	13,159
Acceptances	22,918	189	-	23,107
Total funded net exposure	525,292	83,470	3,038	611,800
Letter of credit / guarantee	20,912	8,333	-	29,245
Financing Commitment / Unutilised limits	38,226	16,456	-	54,682
Total non-funded net exposure	59,138	24,789	-	83,927
Total net exposure	584,430	108,259	3,038	695,727

27. Allowance for expected credit losses (continued)

27.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2020 and 2019: (continued)

31 December 2019	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Balances with Central Bank of Oman	41,108	-	-	41,108
Due from banks and financial institutions	24,747	-	-	24,747
Murabaha and other receivables	17,382	2,266	38	19,686
Mudaraba financing	4,347	14,549	-	18,896
Diminishing Musharaka financing	264,433	59,701	2,690	326,824
Investments	62,586	-	-	92,586
Wakala financing	21,957	17,983	70	40,010
Ijarah Muntahia Bittamleek	45,822	119	80	46,021
Accrued profit	2,277	1,315	390	3,982
Acceptances	656	209	-	865
Total funded gross exposure	485,315	96,142	3,268	584,725
Letter of credit / guarantee	5,353	21,266	-	26,619
Financing commitment/unutilised limits	20,424	3,526	-	23,950
Total non-funded gross exposure	25,777	24,792	-	50,569
Total gross exposure	511,092	120,934	3,268	635,294
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(88)	(22)	(18)	(128)
Mudaraba financing	(24)	(156)	-	(180)
Diminishing Musharaka financing	(846)	(3,200)	(849)	(4,895)
Investments	(125)	-	-	(125)
Wakala financing	(36)	(37)	(18)	(91)

27. Allowance for expected credit losses (continued)

27.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2020 and 2019: (continued)

31 December 2019	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Ijarah Muntahia Bittamleek	(73)	(22)	(43)	(138)
Accrued profit	(9)	(40)	(390)	(439)
Acceptances	-	(1)	-	(1)
Total funded	(1,203)	(3,478)	(1,318)	(5,999)
Letter of credit / guarantee	(18)	(93)	-	(111)
Financing commitment / unutilised limits	(109)	(48)	-	(157)
Total non-funded	(127)	(141)	-	(268)
Total allowance and profit suspended	(1,330)	(3,619)	(1,318)	(6,267)
Net exposure				
Balances with Central Bank of Oman	41,108	-	-	41,108
Due from banks and financial institutions	24,745	-	-	24,745
Murabaha and other receivables	17,294	2,244	20	19,558
Mudaraba financing	4,323	14,393	-	18,716
Diminishing Musharaka financing	263,587	56,501	1,841	321,929
Investments	62,461	-	-	62,461
Wakala financing	21,921	17,946	52	39,919
Ijarah Muntahia Bittamleek	45,749	97	37	45,883
Accrued profit	2,268	1,275	-	3,543
Acceptances	656	208	-	864
Total funded net exposure	484,112	92,664	1,950	578,726
Letter of credit / guarantee	5,335	21,173	-	26,508
Financing Commitment / Unutilised limits	20,315	3,478	-	23,793
Total non-funded net exposure	25,650	24,651	-	50,301
Total net exposure	509,762	117,315	1,950	629,027

27. Allowance for expected credit losses (continued)

27.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2020 and 2019: (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 of CBO norms, including those on restructuring of accounts for regulatory reporting purposes.

27.2.1 Comparison of provisions held as per IFRS 9 and required as per CBO norms

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

27. Allowance for expected credit losses (continued)

27.2.1 Comparison of provisions held as per IFRS 9 and required as per CBO norms (continued)

At 31 December 2020 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Standard	Stage 1	394,217	4,091	2,472	1,619	390,126	391,745	-	-
	Stage 2	48,521	478	1,224	(746)	48,043	47,297	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		442,738	4,569	3,696	873	438,169	439,042	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	36,299	366	3,330	(2,964)	35,933	32,969	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		36,299	366	3,330	(2,964)	35,933	32,969	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	166	41	62	(21)	125	104	-	-
Subtotal		166	41	62	(21)	125	104	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	739	185	211	(26)	554	528	-	-
Subtotal		739	185	211	(26)	554	528	-	-
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,614	1,249	1,237	12	2,361	2,377	-	4
Subtotal		3,614	1,249	1,237	12	2,361	2,377	-	4
Other items	Stage 1	193,142	-	457	(457)	193,142	192,685	-	-
	Stage 2	28,204	-	211	(211)	28,204	27,993	-	-
	Stage 3	656	-	627	(627)	29	29	-	627
Subtotal		222,002	-	1,295	(1,295)	221,375	220,707	-	627
Total	Stage 1	587,359	4,091	2,929	1,162	583,268	584,430	-	-
	Stage 2	113,024	844	4,765	(3,921)	112,180	108,259	-	-
	Stage 3	5,175	1,475	2,137	(662)	3,069	3,038	-	631
	Total	705,558	6,410	9,831	(3,421)	698,517	695,727	-	631

27. Allowance for expected credit losses (continued)

27.2.1 Comparison of provisions held as per IFRS 9 and required as per CBO norms (continued)

At 31 December 2019 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
	Stage 1	353,941	3,691	1,067	2,624	350,250	352,874	-	-
Standard	Stage 2	52,507	524	939	(415)	51,983	51,568	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		406,448	4,215	2,006	2,209	402,233	404,442	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	42,111	417	2,498	(2,081)	41,694	39,613	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		42,111	417	2,498	(2,081)	41,694	39,613	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	58	14	19	(5)	44	39	-	-
Subtotal		58	14	19	(5)	44	39	-	-
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	154	45	59	(14)	107	95	-	2
Subtotal		154	45	59	(14)	107	95	-	2
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,666	1,008	850	158	1,658	1,816	-	-
Subtotal		2,666	1,008	850	158	1,658	1,816	-	-
	Stage 1	157,151	-	263	(263)	157,151	156,888	-	-
Other items	Stage 2	26,316	-	182	(182)	26,316	26,134	-	-
	Stage 3	390	-	390	(390)	-	-	-	390
Subtotal		183,857	-	835	(835)	183,467	182,022	-	390
	Stage 1	511,092	3,691	1,330	2,361	507,401	509,762	-	-
Total	Stage 2	120,934	941	3,619	(2,678)	119,993	117,315	-	-
	Stage 3	3,268	1,067	1,318	(251)	1,809	1,950	-	392
	Total	635,294	5,699	6,267	(568)	629,203	629,027	-	392

27. Allowance for expected credit losses (continued)

27.2.1 Comparison of provisions held as per IFRS 9 and required as per CBO norms (continued)

Other items disclosed above includes exposure which are not subjected to provision under BM 977 and related instructions. This represents outstanding and respective provisions held against letter of credit and guarantee, financing commitments / unutilised limits, investments at fair value through equity and other assets.

27.2.2 Restructured financing

At 31 December 2020 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Classified as performing	Stage 1	564	4	14	(10)	560	550	-	-
	Stage 2	15,111	144	1,813	(1,669)	14,967	13,298	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**15,675**	**148**	**1,827**	**(1,679)**	**15,527**	**13,848**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	785	196	234	(38)	484	551	-	-
Subtotal		**785**	**196**	**234**	**(38)**	**484**	**551**	**-**	**-**
Total	**Stage 1**	**564**	**4**	**14**	**(10)**	**560**	**550**	**-**	**-**
	Stage 2	**15,111**	**144**	**1,813**	**(1,669)**	**14,967**	**13,298**	**-**	**-**
	Stage 3	**785**	**196**	**234**	**(38)**	**484**	**551**	**-**	**-**
	Total	**16,460**	**344**	**2,061**	**(1,717)**	**16,011**	**14,399**	**-**	**-**

27. Allowance for expected credit losses (continued)

27.2.2 Restructured financing (continued)

At 31 December 2019 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8) = 3-5	(9)	(10)
Classified as performing	Stage 1	526	3	12	(9)	523	514	-	-
	Stage 2	14,785	141	1,251	(1,110)	14,644	13,534	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,311	144	1,263	(1,119)	15,167	14,048	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
Total	Stage 1	526	3	12	(9)	523	514	-	-
	Stage 2	14,785	141	1,251	(1,110)	14,644	13,534	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Total	15,311	144	1,263	(1,119)	15,167	14,048	-	-

* Net of provisions and reserve profit as per CBO norms.

Asset Classification as per IFRS 9	Position as at		
	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to statement of profit or loss	711	3,325	(2,614)
Provision required as per CBO norms including reserve profit/held as per IFRS 9	7,041	10,462	(3,421)
Gross non-performing financing (percentage)	0.93%	0.93%	0.00%
Net non-performing financing (percentage)	0.64%	0.63%	0.01%

27 Allowance for expected credit losses (continued)

27.2.2 Restructured financing (continued)

Asset Classification as per IFRS 9	Position as at		
	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to statement of profit or loss	785	734	51
Provision required as per CBO norms including reserve profit/held as per IFRS 9	6,091	6,267	(176)
Gross non-performing financing (percentage)	0.64%	0.64%	0.00%
Net non-performing financing (percentage)	0.40%	0.43%	0.03%

27.3 Following tables show the movement in impairment allowance for the year:

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	**1,330**	**3,619**	**1,318**	**6,267**
Charge for the year – Stage 1	**1,599**	**-**	**-**	**1,599**
Charge for the year – Stage 2	**-**	**1,146**	**-**	**1,146**
Charge for the year – Stage 3	**-**	**-**	**634**	**634**
Reversal of charge – Stage 3	**-**	**-**	**(54)**	**(54)**
Net charge for the year	**1,599**	**1,146**	**580**	**3,325**
Impairment allowance at end before profit suspended	**2,929**	**4,765**	**1,898**	**9,592**
Add: Increase in profit suspended	**-**	**-**	**239**	**239**
Impairment allowance at end	**2,929**	**4,765**	**2,137**	**9,831**

31 December 2020	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Impairment allowance at beginning	1,255	3,228	907	5,390
Charge for the year – Stage 1	75	-	-	75
Charge for the year – Stage 2	-	391	-	391
Charge for the year – Stage 3	-	-	323	323
Reversal of charge – Stage 3	-	-	(55)	(55)
Net charge for the year	75	391	268	734
Impairment allowance at end before profit suspended	1,330	3,619	1,175	6,124
Add: Increase in profit suspended	-	-	143	143
Impairment allowance at end	1,330	3,619	1,318	6,267

28 Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2020 RO'000	2019 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**517**	822
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**24,458**	35,463
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration proposed	**9**	9
– sitting fees paid	**2**	2
Other Members		
– remuneration proposed	**29**	29
– sitting fees paid	**8**	8
	48	48
Other transactions		
Rental payment to a related party	**306**	306
Income from finance to related parties	**19**	37
Profit expense on deposits from related parties	**1,455**	1,811
Key management compensation		
Salaries and other benefits	**417**	267
End of service benefits	**6**	10
	423	277

At 31 December 2020, profit rate for finances range from 2.0% to 5.0% (2019: 2.0% to 5.5%), and profit rate for deposits range from 0.0% to 4.8% (2019: 0.0% to 4.5%).

29. Contingent liabilities and commitments

1. Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2020 RO'000	2019 RO'000
Letters of credit	**10,747**	10,532
Guarantees	**18,608**	16,087
Total	**29,355**	26,619

29. Contingent liabilities and commitments (continued)

2 Capital and investment commitments

	2020 RO'000	2019 RO'000
Contractual commitments for property and equipment	**42**	73

3 The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2020 amounts to RO 57,903 thousand (2019: 45,631 thousand).

30. Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

	Contract / Notional Amount by term to Maturity			
Forward exchange contracts	**within 3 months RO'000**	**4-12 months RO'000**	**more than 12 months RO'000**	**Total RO'000**
31 December 2020				
Currency forward - purchase contracts	**115,500**	**3,850**	**17,325**	**136,675**
Currency forward - sale contracts	**115,500**	**3,860**	**17,487**	**136,847**

	Contract / Notional Amount by term to Maturity			
Forward exchange contracts	**within 3 months RO'000**	**4-12 months RO'000**	**more than 12 months RO'000**	**Total RO'000**
31 December 2019				
Currency forward - purchase contracts	38,500	-	-	38,500
Currency forward - sale contracts	38,511	-	-	38,511

31. Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

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

31. Fair value information (continued)

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

	2020			
Fair value information	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Investments at fair value through equity	**61,966**	**18,029**	**-**	**79,995**

	2019			
Fair value information	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Investments at fair value through equity	52,586	-	-	52,586

32. Financial risk management

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

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

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

32. Financial risk management (continued)

Credit risk (continued)

Credit risk is managed by the Risk Management Division ("RMD") through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

32.1 Outbreak of Coronavirus (COVID-19)

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

32.2 Government measures

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

32.3 Impact of COVID-19 on the Window

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration have been given both to the effects of COVID-19 and the significant government support measures being undertaken.

In response to COVID-19 situation, CBO issued the guidelines in March 2020 to provide the necessary support to affected customers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of financing instalments / profit for affected customers for one year i.e. 31-03-2021. In line with the CBO guidelines, Window considered deferment for all eligible customers (who have requested for deferment), as short-term liquidity support to address the customer's potential cash flow issues. The deferrals have been allowed to only customers whose cashflows have been impacted by the COVID-19 situation and backed by specific requests from them. For such cases, every review includes an assessment on whether the cashflow issues observed are on account of the COVID-19 impact or otherwise and in case these are identified to be otherwise, the accounts are suitable staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9. The Window continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk. The outstanding of the accounts under deferment amounts to RO 278 million as at 31 December 2020. Window has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience. Overall, total ECL to total exposure have increased from 0.99% as at Dec-19 to 1.39% as at Dec-20.

32. Financial risk management (continued)

Credit risk (continued)

32.3 Impact of COVID-19 on the Window (continued)

Additionally, the CBO has also advised to suspend the calculation of profit for laid off employee of private sector for a period of 12 months. In order to support the citizens of the country in such challenging times as per Shari'a requirement and CBO guidelines, Maisarah has waived profit to 693 customers with profit waiver of RO 317 thousand.

32.3.1 Impact on SICR:

The Window has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 32 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposure is undertaken on selective basis duly supported by the cashflows that that can be firmly established, and the requirements are considered with proper monitoring mechanism. The exercise of the deferment option by a customer, in its own, is not considered by the Window as triggering SICR.

32.3.2 Impact on ECL:

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

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

32. Financial risk management (continued)

Credit risk (continued)

32.3.2 Impact on ECL: (continued)

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

The Window's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. Other than changes in the macro-economic indicators, the Window has not considered any other change in ECL model. Maisarah has incurred an additional ECL of approximately RO 1,697 thousand during 2020 due to revision of macro-economic indicators. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. In order to meet any additional challenge, the Window has considered additional ECL overlays, based on the management experience and close monitoring of the stressed accounts. The management overlay (over and above the ECL impacted due to macro-economic indicators) made in estimating the reported ECL as at 31 December 2020 are set out in the following table:

Type of Portfolio	Modelled ECL RO'000	Post-model adjustments (PMAs) and Management overlays RO'000	Total ECL RO'000	Adjustments as a % of Total ECL RO'000
Corporate	6,067	860	6,927	12.42%
SME	1,211	-	1,211	0.00%
Retail	672	-	672	0.00%
Others	390	-	390	0.00%
Total	**8,340**	**860**	**9,200**	**9.35%**

The management overlay (over and above the ECL impacted due to macro-economic indicators) made in estimating the reported ECL as at 31 December 2019 are set out in the following table:

Type of Portfolio	Modelled ECL RO'000	Post-model adjustments (PMAs) and Management overlays RO'000	Total ECL RO'000	Adjustments as a % of Total ECL RO'000
Corporate	4,238	225	4,463	5.04%
SME	636	-	636	0.00%
Retail	443	-	443	0.00%
Others	333	-	333	0.00%
Total	**5,650**	**225**	**5,875**	**3.83%**

The total ECL amount has increased from RO 5,875 thousand as at 31 December 2019 to RO 9,200 thousand as at 31 December 2020. Thus, ECL has increased by RO 3,325 thousand (56.60%) during 2020.

32. Financial risk management (continued)

Credit risk (continued)

32.3.2 Impact on ECL: (continued)

Sensitivity of ECL to future economic conditions

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

	ECL for Financing / Receivables RO'000	ECL for Investment securities carried at amortised cost RO'000	ECL for Other Portfolio RO'000	Total RO'000
Scenarios currently used by the Window	7,950	129	261	**8,340**
100% Base case scenario	8,490	139	100	**8,729**
100% Downside scenario	9,731	179	103	**10,013**

The above table reveals that in case of 100% downside scenario, the ECL may increase by RO 1,673 thousand from the current position.

32.3.3 Accounting for modification loss and restructuring:

In case of Corporate customers, the Window plans to add the simple profit accrued during the deferral period to the principal outstanding and either extend the original maturity period of the financing or increase the instalments at the end of the DP. The Window has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not resulted in derecognition of financial assets.

Considering the specific nature of Islamic Financial Institutions (IFIs), in line with the Shari'a principles and rules, AAOIFI does not allow either recording a receivable (Dain) on net present value (NPV) or applying the concept of opportunity cost in accounting.

Analysis on the deferment benefits used of the Customers

The following table contains an analysis of all the accounts which are availing deferment benefits as on **31 December 2020:**

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

Category of Retail Customers	Outstanding RO'000	Deferred Principal RO'000	Deferred Profit RO'000	ECL RO'000
Retail Category – 1*	77,670	1,574	1,724	196
Retail Category – 2**	3,242	68	87	70
Total	**80,912**	**1,642**	**1,811**	**266**

* Category 1 are customers with regular salary.

** Category 2 are customers with irregular salary.

32. Financial risk management (continued)

Credit risk (continued)

32.3.3 Accounting for modification loss and restructuring: (continued)

B: Sector-wise analysis of Corporate customers benefiting from deferred payments

		Construction RO'000	Services RO'000	Manufacturing RO'000	Import Trade RO'000	All Others RO'000	Total RO'000
Stage 1	Outstanding	84,612	45,650	6,755	1,756	7,652	**146,425**
	Deferred Principal	4,307	2,947	6,121	676	882	**14,933**
	Deferred Profit	3,093	1,778	350	58	366	**5,645**
	ECL	1,293	331	19	6	43	**1,692**
Stage 2	Outstanding	43,596	607	4,207	922	954	**50,286**
	Deferred Principal	4,642	76	1,543	172	188	**6,621**
	Deferred Profit	2,089	16	265	36	31	**2,437**
	ECL	3,539	34	229	61	13	**3,876**
Stage 3	Outstanding	-	-	-	-	74	**74**
	Deferred Principal	-	-	-	-	8	**8**
	Deferred Profit	-	-	-	-	6	**6**
	ECL	-	-	-	-	23	**23**
Total	**Outstanding**	**128,208**	**46,257**	**10,962**	**2,678**	**8,680**	**196,785**
	Deferred Principal	**8,949**	**3,023**	**7,664**	**848**	**1,078**	**21,562**
	Deferred Profit	**5,182**	**1,794**	**615**	**94**	**403**	**8,088**
	ECL	**4,832**	**365**	**248**	**67**	**79**	**5,591**

32.3.4 Impact on the Capital Adequacy:

Besides, the Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. As per the Prudential filter, the Tier II capital of the Window will comprise of Stage 1 ECL plus portion of Stage 2 ECL. Such portion shall be estimated as under:

- The Stage 2 ECL amount as on Dec-19 is considered "Base Year Amount" and will continue to get earlier phase out arrangement (i.e. 40% for 2020 and 20% for 2021); and
- The incremental ECL (i.e. Stage 2 ECL at a respective reporting date minus Stage 2 ECL as at Dec-19) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (like 40% in 2021, 60% in 2022 etc.).

The Tier II Capital has improved by 0.12% due to application of the above prudential filter.

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

32. Financial risk management (continued)

Credit risk (continued)

Gross exposures subjected to credit risk exposure are as follows:

1. Portfolio concentrations (Gross)

	2020 RO'000	2019 RO'000
Balances with CBO	**11,809**	41,108
Due from Banks	**8,840**	24,747
Total financing	**483,556**	451,437
Investments	**79,995**	62,586
Letter of credit / Guarantee	**29,355**	26,619
Acceptances	**23,275**	865
Unutilized exposure	**54,931**	23,950
Accrued profit	**13,797**	3,982
Total	**705,558**	635,294

2. Geographical concentrations (Gross)

	2020				
	Sultanate of Oman RO'000	Other GCC Countries RO'000	Europe and North America RO'000	Africa and Asia RO'000	Total RO'000
Balances with CBO	11,809	-	-	-	**11,809**
Due from Banks	-	8,017	823	-	**8,840**
Total financing	483,556	-	-	-	**483,556**
Investments	79,995	-	-	-	**79,995**
Letter of credit / Guarantee	19,489	7,949	282	1,635	**29,355**
Acceptances	183	102	17,350	5,640	**23,275**
Unutilized exposure	54,931	-	-	-	**54,931**
Accrued profit	13,797	-	-	-	**13,797**
Total	**663,760**	**16,068**	**18,455**	**7,275**	**705,558**

32. Financial risk management (continued)

Credit risk (continued)

2. Geographical concentrations (Gross) (continued)

	2019				
	Sultanate of Oman RO'000	Other GCC Countries RO'000	Europe and North America RO'000	Africa and Asia RO'000	Total RO'000
Balances with CBO	41,108	-	-	-	41,108
Due from Banks	-	23,346	1,401	-	24,747
Total financing	451,437	-	-	-	451,437
Investments	62,586	-	-	-	62,586
Letter of credit / Guarantee	16,431	8,545	762	881	26,619
Acceptances	43	125	101	596	865
Unutilized exposure	23,950	-	-	-	23,950
Accrued profit	3,977	5	-	-	3,982
Total	599,532	32,021	2,264	1,477	635,294

3. Customer concentrations (Gross)

	2020			
	Retail RO'000	Corporate RO'000	Government RO'000	Total RO'000
Balances with CBO	-	-	11,809	**11,809**
Due from Banks	-	8,840	-	**8,840**
Total financing	179,100	304,456	-	**483,556**
Investments	-	18,629	61,366	**79,995**
Letter of credit / Guarantee	-	29,355	-	**29,355**
Acceptances	-	23,275	-	**23,275**
Unutilized exposure	-	54,931	-	**54,931**
Accrued profit	411	12,982	404	**13,797**
Total	**179,511**	**452,468**	**73,579**	**705,558**

32. Financial risk management (continued)

Credit risk (continued)

3. Customer concentrations (Gross) (continued)

	2019			
	Retail RO'000	Corporate RO'000	Government RO'000	Total RO'000
Balances with CBO	-	-	41,108	41,108
Due from Banks	-	24,747	-	24,747
Total financing	174,961	276,476	-	451,437
Investments	-	20,010	42,576	62,586
Letter of credit / Guarantee	361	26,258	-	26,619
Acceptances	-	865	-	865
Unutilized exposure	-	23,950	-	23,950
Accrued profit	112	3,691	179	3,982
Total	175,434	375,997	83,863	635,294

32. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross)

2020	Balances with CBO RO'000	Due from Banks RO'000	Total financing RO'000	Investments RO'000	Letter of credit / Guarantee RO'000	Acceptances RO'000	Unutilized exposure RO'000	Accrued profit RO'000	Total RO'000
Import trade	-	-	19,240	-	1,239	79	12,007	400	**32,965**
Export trade	-	-	-	-	10	-	-	-	**10**
Wholesale & retail trade	-	-	15,979	-	1,522	60	3,660	134	**21,355**
Mining & quarrying	-	-	4,475	-	71	17,325	331	54	**22,256**
Construction	-	-	169,061	-	9,406	289	18,496	8,431	**205,683**
Manufacturing	-	-	24,173	-	15,958	5,522	12,888	579	**59,120**
Electricity, gas and water	-	-	2,527	-	25	-	-	25	**2,577**
Transport & communication	-	-	189	-	-	-	54	7	**250**
Financial institutions	-	8,840	393	18,629	45	-	2,903	361	**31,171**
Services	-	-	48,801	-	187	-	239	2,676	**51,903**
Government	11,809	-	-	61,366	-	-	-	404	**73,579**
Retail	-	-	179,100	-	-	-	-	411	**179,511**
Agriculture and allied Activities	-	-	7,347	-	607	-	2,735	30	**10,719**
Others	-	-	12,271	-	285	-	1,618	285	**14,459**
Total	**11,809**	**8,840**	**483,556**	**79,995**	**29,355**	**23,275**	**54,931**	**13,797**	**705,558**

32. Financial risk management (continued)

Credit risk (continued)

4. Sector concentrations (Gross) (continued)

2019	Balances with CBO RO'000	Due from Banks RO'000	Total financing RO'000	Investments RO'000	Letter of credit / Guarantee RO'000	Acceptances RO'000	Unutilized exposure RO'000	Accrued profit RO'000	Total RO'000
Import trade	-	-	16,715	-	664	174	2,779	202	20,534
Wholesale & retail trade	-	-	5,858	-	558	130	5,401	71	12,018
Mining & quarrying	-	-	4,658	-		-	-	56	4,714
Construction	-	-	163,867	-	12,351	43	8,489	1,981	186,731
Manufacturing	-	-	24,971	-	12,174	518	1,737	302	39,702
Electricity, gas and water	-	-	1,823	-	-	-	-	22	1,845
Transport & communication	-	-	208	-	-	-	38	3	249
Financial institutions	-	24,747	985	20,010	-	-	2,189	361	48,292
Services	-	-	47,939	-	58	-	959	579	49,535
Government	41,108	-	-	42,576	-	-	-	179	83,863
Retail	-	-	174,961	-	361	-	-	112	175,434
Agriculture and allied Activities	-	-	1,983	-	-	-	440	24	2,447
Others	-	-	7,469	-	453	-	1,918	90	9,930
Total	41,108	24,747	451,437	62,586	26,619	865	23,950	3,982	635,294

5. Maximum exposure to credit risk without consideration of collateral held:

	2020 RO'000	2019 RO'000
Due from banks and financial institutions (Gross)	**8,840**	24,747

32. Financial risk management (continued)

Credit risk (continued)

6 Credit quality concentration (Gross)

	2020			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total RO'000
Balances with CBO	11,809	-	-	**11,809**
Due from Banks	8,840	-	-	**8,840**
Total financing	462,969	16,068	4,519	**483,556**
Investments	79,995	-	-	**79,995**
Letter of credit / Guarantee	29,355	-	-	**29,355**
Acceptances	23,275	-	-	**23,275**
Unutilized exposure	54,931	-	-	**54,931**
Accrued profit	12,624	517	656	**13,797**
Total	**683,798**	**16,585**	**5,175**	**705,558**

	2019			
	Performing Not Past Due RO'000	Performing Past Due RO'000	Non-Performing RO'000	Total RO'000
Balances with CBO	41,108	-	-	41,108
Due from Banks	24,747	-	-	24,747
Total financing	379,799	68,760	2,878	451,437
Investments	62,586	-	-	62,586
Letter of credit / Guarantee	26,619	-	-	26,619
Acceptances	865	-	-	865
Unutilized exposure	23,950	-	-	23,950
Accrued profit	3,592	-	390	3,982
Total	563,266	68,760	3,268	635,294

32. Financial risk management (continued)

Credit risk (continued)

7 Amounts arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

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

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

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

Incorporation of forward-looking information

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

Economic variable assumptions

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

Real GDP growth (%)	2020	2019	Oil revenue (%GDP)	2020	2019
Present	0.50%	2.10%	Present	29.40%	31.08%
Year 1 Projection	-10.00%	1.10%	Year 1 Projection	21.72%	27.07%
Year 2 Projection	-0.50%	6.20%	Year 2 Projection	24.94%	25.43%
Year 3 Projection	11.00%	2.80%	Year 3 Projection	24.27%	27.74%

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

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
High investment grade	-	11,809	-	-	-	-	**-**	**11,809**
Moderate investment grade	-	-	-	-	-	-	**-**	**-**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**11,809**	**-**	**-**	**-**	**-**	**-**	**11,809**
Banks								
High investment grade	-	-	-	-	-	-	**-**	**-**
Moderate investment grade	1	8,840	-	-	-	-	**1**	**8,840**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**1**	**8,840**	**-**	**-**	**-**	**-**	**1**	**8,840**
Financing to customers Corporate and SME								
High investment grade	85	43,472	20	6,926	-	-	**105**	**50,398**
Moderate investment grade	1,853	161,668	289	25,487	-	-	**2,142**	**187,155**
Sub investment grade	99	10,495	4,189	52,206	-	-	**4,288**	**62,701**
Non-performing	-	-	-	-	1,326	4,202	**1,326**	**4,202**
Total	**2,037**	**215,635**	**4,498**	**84,619**	**1,326**	**4,202**	**7,861**	**304,456**
Retail (Personal)								
High investment grade	67	12,159	-	-	-	-	**67**	**12,159**
Moderate investment grade	6	312	-	-	-	-	**6**	**312**
Sub investment grade	-	-	1	6	-	-	**1**	**6**
Non-performing	-	-	-	-	25	40	**25**	**40**
Total	**73**	**12,471**	**1**	**6**	**25**	**40**	**99**	**12,517**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail (Housing and credit card receivables)								
High investment grade	362	166,111	15	49	-	-	**377**	**166,160**
Moderate investment grade	-	-	5	31	-	-	**5**	**31**
Sub investment grade	-	-	35	115	-	-	**35**	**115**
Non-performing	-	-	-	-	159	277	**159**	**277**
Total	**362**	**166,111**	**55**	**195**	**159**	**277**	**576**	**166,583**
Total financing	**2,472**	**394,217**	**4,554**	**84,820**	**1,510**	**4,519**	**8,536**	**483,556**
Investments								
High investment grade	-	61,366	-	-	-	-	**-**	**61,366**
Moderate investment grade	129	18,629	-	-	-	-	**129**	**18,629**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**129**	**79,995**	**-**	**-**	**-**	**-**	**129**	**79,995**
Letter of credit / Guarantees								
Corporate and SME	52	20,964	58	8,391	-	-	**110**	**29,355**
Retail	-	-	-	-	-	-	**-**	**-**
Total	**52**	**20,964**	**58**	**8,391**	**-**	**-**	**110**	**29,355**
Others								
Unutilised	102	38,328	147	16,603	-	-	**249**	**54,931**
Acceptances	168	23,086	-	189	-	-	**168**	**23,275**
Accrued profit	5	10,120	6	3,021	627	656	**638**	**13,797**
Total	**275**	**71,534**	**153**	**19,813**	**627**	**656**	**1,055**	**92,003**
Total portfolio	**2,929**	**587,359**	**4,765**	**113,024**	**2,137**	**5,175**	**9,831**	**705,558**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
High investment grade	-	41,108	-	-	-	-	-	41,108
Moderate investment grade	-	-	-	-	-	-	-	-
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	41,108	-	-	-	-	-	41,108
Banks								
High investment grade	2	24,747	-	-	-	-	2	24,747
Moderate investment grade	-	-	-	-	-	-	-	-
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	2	24,747	-	-	-	-	2	24,747
Financing to customers Corporate and SME								
High investment grade	115	52,523	91	17,114	-	-	206	69,637
Moderate investment grade	634	125,619	494	25,177	-	-	1,128	150,796
Sub investment grade	12	1,218	2,827	52,171	-	-	2,839	53,389
Non-performing	-	-	-	-	815	2,654	815	2,654
Total	761	179,360	3,412	94,462	815	2,654	4,988	276,476
Retail (Personal)								
High investment grade	55	11,257	-	-	-	-	55	11,257
Moderate investment grade	5	329	1	29	-	-	6	358
Sub investment grade	-	-	2	8	-	-	2	8
Non-performing	-	-	-	-	16	30	16	30
Total	60	11,586	3	37	16	30	79	11,653

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail (Housing and credit card receivables)								
High investment grade	246	162,995	-	-	-	-	246	162,995
Moderate investment grade	-	-	9	73	-	-	9	73
Sub investment grade	-	-	13	46	-	-	13	46
Non-performing	-	-	-	-	97	194	97	194
Total	246	162,995	22	119	97	194	365	163,308
Total financing	1,067	353,941	3,437	94,618	928	2,878	5,432	451,437
Investments								
High investment grade	-	42,576	-	-	-	-	-	42,576
Moderate investment grade	125	20,010	-	-	-	-	125	20,010
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	125	62,586	-	-	-	-	125	62,586
Letter of credit / Guarantees								
Corporate and SME	17	4,992	93	21,266	-	-	110	26,258
Retail	1	361	-	-	-	-	1	361
Total	18	5,353	93	21,266	-	-	111	26,619
Others								
Unutilised	109	20,424	48	3,526	-	-	157	23,950
Acceptances	-	656	1	209	-	-	1	865
Accrued profit	9	2,277	40	1,315	390	390	439	3,982
Total	118	23,357	89	5,050	390	390	597	28,797
Total portfolio	1,330	511,092	3,619	120,934	1,318	3,268	6,267	635,294

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

The gross exposure of the financial assets as at 31 December 2020 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
Opening balance	-	41,108	-	-	-	-	**-**	**41,108**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(21,599)	-	-	-	-	**-**	**(21,599)**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	(7,700)	-	-	-	-	**-**	**(7,700)**
Closing balance	**-**	**11,809**	**-**	**-**	**-**	**-**	**-**	**11,809**
Banks								
Opening balance	2	24,747	-	-	-	-	**2**	**24,747**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(4,380)	-	-	-	-	**-**	**(4,380)**
Financial asset originated during the year	-	23	-	-	-	-	**-**	**23**
Financial asset matured during the year	(1)	(11,550)	-	-	-	-	**(1)**	**(11,550)**
Closing balance	**1**	**8,840**	**-**	**-**	**-**	**-**	**1**	**8,840**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Total financing								
Opening balance	1,067	353,941	3,437	94,618	928	2,878	**5,432**	**451,437**
Transfer between stages								
- Transfer to Stage 1	163	13,347	(163)	(13,347)	-	-	**-**	**-**
- Transfer to Stage 2	(26)	(6,018)	26	6,018	-	-	**-**	**-**
- Transfer to Stage 3	-	(158)	(272)	(1,483)	272	1,641	**-**	**-**
	137	7,171	(409)	(8,812)	272	1,641	**-**	**-**
Re-measurement of outstanding	1,006	(2,748)	1,448	(3,423)	307	(10)	**2,761**	**(6,181)**
Financial asset originated during the year	314	66,033	152	20,159	3	10	**469**	**86,202**
Financial asset matured during the year	(52)	(30,180)	(74)	(17,722)	-	-	**(126)**	**(47,902)**
Closing balance	**2,472**	**394,217**	**4,554**	**84,820**	**1,510**	**4,519**	**8,536**	**483,556**
Corporate and SME								
Opening balance	761	179,360	3,412	94,462	815	2,654	**4,988**	**276,476**
Transfer between stages								
- Transfer to Stage 1	138	13,190	(138)	(13,190)	-	-	**-**	**-**
- Transfer to Stage 2	(26)	(5,814)	26	5,814	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	(272)	(1,483)	272	1,559	**-**	**-**
	112	7,300	(384)	(8,859)	272	1,559	**-**	**-**
Re-measurement of outstanding	932	1,922	1,392	(3,421)	239	(11)	**2,563**	**(1,510)**
Financial asset originated during the year	277	52,754	152	20,159	-	-	**429**	**72,913**
Financial asset matured during the year	(45)	(25,701)	(74)	(17,722)	-	-	**(119)**	**(43,423)**
Closing balance	**2,037**	**215,635**	**4,498**	**84,619**	**1,326**	**4,202**	**7,861**	**304,456**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail								
Opening balance	306	174,581	25	156	113	224	**444**	**174,961**
Transfer between stages								
- Transfer to Stage 1	25	157	(25)	(157)	-	-	-	-
- Transfer to Stage 2	-	(204)	-	204	-	-	-	-
- Transfer to Stage 3	-	(82)	-	-	-	82	-	-
	25	(129)	(25)	47	-	82	-	-
Re-measurement of outstanding	74	(4,670)	56	(2)	68	1	**198**	**(4,671)**
Financial asset originated during the year	37	13,279	-	-	3	10	**40**	**13,289**
Financial asset matured during the year	(7)	(4,479)	-	-	-	-	**(7)**	**(4,479)**
Closing balance	**435**	**178,582**	**56**	**201**	**184**	**317**	**675**	**179,100**
Investments								
Opening balance	125	62,586	-	-	-	-	**125**	**62,586**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(2,231)	-	-	-	-	-	**(2,231)**
Financial asset originated during the year	4	36,003	-	-	-	-	**4**	**36,003**
Financial asset matured during the year	-	(16,363)	-	-	-	-	-	**(16,363)**
Closing balance	**129**	**79,995**	-	-	-	-	**129**	**79,995**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Letter of credit / Guarantees								
Opening balance	18	5,353	93	21,266	-	-	**111**	**26,619**
Transfer between stages								
- Transfer to Stage 1	3	168	(3)	(168)	-	-	**-**	**-**
- Transfer to Stage 2	(3)	(1,244)	3	1,244	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	(1,076)	-	1,076	-	-	**-**	**-**
Re-measurement of outstanding	-	(409)	(7)	(418)	-	-	**(7)**	**(827)**
Financial asset originated during the year	40	19,319	12	2,759	-	-	**52**	**22,078**
Financial asset matured during the year	(6)	(2,223)	(40)	(16,292)	-	-	**(46)**	**(18,515)**
Closing balance	**52**	**20,964**	**58**	**8,391**	**-**	**-**	**110**	**29,355**
Acceptances								
Opening balance	-	656	1	209	-	-	**1**	**865**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	168	23,086	-	189	-	-	**168**	**23,275**
Financial asset matured during the year	-	(656)	(1)	(209)	-	-	**(1)**	**(865)**
Closing balance	**168**	**23,086**	**-**	**189**	**-**	**-**	**168**	**23,275**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Unutilised limits								
Opening balance	109	20,424	48	3,526	-	-	**157**	**23,950**
Transfer between stages								
- Transfer to Stage 1	5	939	(5)	(939)	-	-	**-**	**-**
- Transfer to Stage 2	(14)	(2,963)	14	2,963	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(9)	(2,024)	9	2,024	-	-	**-**	**-**
Re-measurement of outstanding	(1)	237	1	437	-	-	**-**	**674**
Financial asset originated during the year	98	37,152	132	13,203	-	-	**230**	**50,355**
Financial asset matured during the year	(95)	(17,461)	(43)	(2,587)	-	-	**(138)**	**(20,048)**
Closing balance	**102**	**38,328**	**147**	**16,603**	**-**	**-**	**249**	**54,931**
Accrued profit								
Opening balance	9	2,277	40	1,315	390	390	**439**	**3,982**
Transfer between stages								
- Transfer to Stage 1	1	55	(1)	(55)	-	-	**-**	**-**
- Transfer to Stage 2	-	(26)	-	26	-	-	**-**	**-**
- Transfer to Stage 3	-	-	(3)	(55)	3	55	**-**	**-**
	1	29	(4)	(84)	3	55	**-**	**-**
Re-measurement of outstanding	(4)	6,667	(14)	2,007	234	211	**216**	**8,885**
Financial asset originated during the year	1	1,509	-	434	-	-	**1**	**1,943**
Financial asset matured during the year	(2)	(362)	(16)	(651)	-	-	**(18)**	**(1,013)**
Closing balance	**5**	**10,120**	**6**	**3,021**	**627**	**656**	**638**	**13,797**

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Balances with CBO								
Opening balance	-	36,454	-	-	-	-	-	36,454
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(3,046)	-	-	-	-	-	(3,046)
Financial asset originated during the year	-	7,700	-	-	-	-	-	7,700
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	-	41,108	-	-	-	-	-	41,108
Banks								
Opening balance	14	30,375	-	-	-	-	14	30,375
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	(13)	(17,178)	-	-	-	-	(13)	(17,178)
Financial asset originated during the year	1	11,550	-	-	-	-	1	11,550
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	2	24,747	-	-	-	-	2	24,747

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Total financing								
Opening balance	836	335,292	2,906	64,189	659	2,004	4,401	401,485
Transfer between stages								
- Transfer to Stage 1	218	2,173	(218)	(2,173)	-	-	-	-
- Transfer to Stage 2	(110)	(28,280)	110	28,280	-	-	-	-
- Transfer to Stage 3	-	(76)	(23)	(742)	23	818	-	-
	108	(26,183)	(131)	25,365	23	818	-	-
Re-measurement of outstanding	(173)	(8,314)	(3)	(13,372)	228	(14)	52	(21,700)
Financial asset originated during the year	373	87,234	2,070	51,324	18	70	2,461	138,628
Financial asset matured during the year	(77)	(34,088)	(1,405)	(32,888)	-	-	(1,482)	(66,976)
Closing balance	1,067	353,941	3,437	94,618	928	2,878	5,432	451,437
Corporate and SME								
Opening balance	611	166,524	2,830	63,700	577	1,836	4,018	232,060
Transfer between stages								
- Transfer to Stage 1	151	1,752	(151)	(1,752)	-	-	-	-
- Transfer to Stage 2	(110)	(28,182)	110	28,182	-	-	-	-
- Transfer to Stage 3	-	(18)	(23)	(742)	23	760	-	-
	41	(26,448)	(64)	25,688	23	760	-	-
Re-measurement of outstanding	(157)	(2,804)	(19)	(13,362)	197	(12)	21	(16,178)
Financial asset originated during the year	336	71,634	2,070	51,324	18	70	2,424	123,028
Financial asset matured during the year	(70)	(29,546)	(1,405)	(32,888)	-	-	(1,475)	(62,434)
Closing balance	761	179,360	3,412	94,462	815	2,654	4,988	276,476

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Retail								
Opening balance	225	168,768	76	489	82	168	383	169,425
Transfer between stages								
- Transfer to Stage 1	67	421	(67)	(421)	-	-	-	-
- Transfer to Stage 2	-	(98)	-	98	-	-	-	-
- Transfer to Stage 3	-	(58)	-	-	-	58	-	-
	67	265	(67)	(323)	-	58	-	-
Re-measurement of outstanding	(16)	(5,510)	16	(10)	31	(2)	31	(5,522)
Financial asset originated during the year	37	15,600	-	-	-	-	37	15,600
Financial asset matured during the year	(7)	(4,542)	-	-	-	-	(7)	(4,542)
Closing balance	306	174,581	25	156	113	224	444	174,961
Investments								
Opening balance	174	41,599	-	-	-	-	174	41,599
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	(49)	637	-	-	-	-	(49)	637
Financial asset originated during the year	-	20,350	-	-	-	-	-	20,350
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	125	62,586	-	-	-	-	125	62,586

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Letter of credit / Guarantees								
Opening balance	36	7,682	68	8,889	-	-	104	16,571
Transfer between stages								
- Transfer to Stage 1	-	194	-	(194)	-	-	-	-
- Transfer to Stage 2	(2)	(235)	2	235	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	(2)	(41)	2	41	-	-	-	-
Re-measurement of outstanding	(13)	(1,182)	(28)	(224)	-	-	(41)	(1,406)
Financial asset originated during the year	12	2,464	63	15,326	-	-	75	17,790
Financial asset matured during the year	(15)	(3,570)	(12)	(2,766)	-	-	(27)	(6,336)
Closing balance	18	5,353	93	21,266	-	-	111	26,619
Acceptances								
Opening balance	-	230	2	307	-	-	2	537
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	-	-	-	-	-	-	-
Financial asset originated during the year	-	656	1	209	-	-	1	865
Financial asset matured during the year	-	(230)	(2)	(307)	-	-	(2)	(537)
Closing balance	-	656	1	209	-	-	1	865

32. Financial risk management (continued)

Credit risk (continued)

7. Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000	ECL RO'000	Exposure RO'000
Unutilised limits								
Opening balance	190	39,603	235	9,849	-	-	425	49,452
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	181	-	(181)	-	-	-	-
- Transfer to Stage 3	(11)	(6,798)	11	6,798	-	-	-	-
	(11)	(6,617)	11	6,617	-	-	-	-
Re-measurement of outstanding	26	1,106	(12)	(6,521)	-	-	14	(5,415)
Financial asset originated during the year	49	9,753	-	1	-	-	49	9,754
Financial asset matured during the year	(145)	(23,421)	(186)	(6,420)	-	-	(331)	(29,841)
Closing balance	109	20,424	48	3,526	-	-	157	23,950
Accrued profit								
Opening balance	5	1,238	17	531	248	248	270	2,017
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	(14)	(14)	14	14	-	-
	-	-	(14)	(14)	14	14	-	-
Re-measurement of outstanding	4	1,039	37	798	128	128	169	1,965
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	9	2,277	40	1,315	390	390	439	3,982

32. Financial risk management (continued)

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

The CBO has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019. However, in view of current COVID-19 situation, CBO has temporarily allowed for a minimum LCR of 75% for Bank's Islamic window up to 31 December 2020. The window is in compliance of regulatory limit of LCR as at 31 December 2020, with LCR of 119.18% calculated on weighted average value for the year (2019: 139.43%).

The NSFR is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance. The NSFR of the window as at 31 December 2020 is 99.15% (2019: 114.35%) based on weighted average value for the year, and the NSFR as at 31 December 2020 is 104.07% (2019: 117.46%) based on closing balance position.

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

32. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets (net of impairment allowance for ECL) and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2020						
Cash and balances with Central Bank of Oman	14,823	-	-	-	-	**14,823**
Due from banks and financial institutions	8,839	-	-	-	-	**8,839**
Murabaha and other receivables	4,678	5,698	2,535	9,407	1,520	**23,838**
Mudaraba financing	667	1,333	1,333	6,666	3,123	**13,122**
Diminishing Musharaka financing	1,892	28,807	34,548	143,898	130,808	**339,953**
Investments	-	-	-	43,844	36,022	**79,866**
Wakala financing	51,892	-	-	-	-	**51,892**
Ijarah Muntahia Bittamleek	353	1,869	2,247	17,311	24,435	**46,215**
Property and equipment	-	-	-	-	476	**476**
Intangibles	-	-	-	-	507	**507**
Other assets	13,269	5,840	17,325	-	2,557	**38,991**
Total assets – funded	**96,413**	**43,547**	**57,988**	**221,126**	**199,448**	**618,522**
Total assets – non funded (Forwards)	**115,500**	**3,850**	**17,325**	**-**	**-**	**136,675**
Total assets – funded and non funded	**211,913**	**47,397**	**75,313**	**221,126**	**199,448**	**755,197**
Future profit cash inflows	**3,712**	**13,311**	**14,076**	**63,282**	**40,401**	**134,782**
Current accounts	23,078	33,222	19,061	-	23,653	**99,014**
Due to banks	50,000	35,400	15,400	-	-	**100,800**
Qard Hasan from Head Office	2,005	-	-	35,000	-	**37,005**
Customer Wakala term deposit	239	57,314	74,537	70,821	17,881	**220,792**
Other liabilities	4,714	5,840	17,325	-	528	**28,407**
Equity of unrestricted investment accountholders	2,673	5,346	5,346	26,728	13,390	**53,483**
Owner's equity	-	-	-	-	79,021	**79,021**
Total liabilities and accountholders & owners' equity	**82,709**	**137,122**	**131,669**	**132,549**	**134,473**	**618,522**
Total liabilities non funded (Forwards)	**115,500**	**3,860**	**17,487**	**-**	**-**	**136,847**
Total liabilities funded and non funded; and accountholders & owners' equity	**198,209**	**140,982**	**149,156**	**132,549**	**134,473**	**755,369**
Future profit cash outflows	**99**	**4,311**	**4,805**	**6,575**	**-**	**15,790**
Gap	**13,704**	**(93,585)**	**(73,843)**	**88,577**	**64,975**	**(172)**
Cumulative gap	**13,704**	**(79,881)**	**(153,724)**	**(65,147)**	**(172)**	

32. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets (net of impairment allowance for ECL) and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2019						
Cash and balances with Central Bank of Oman	43,881	-	-	-	-	43,881
Due from banks and financial institutions	24,745	-	-	-	-	24,745
Murabaha and other receivables	4,090	2,623	2,931	8,021	1,893	19,558
Mudaraba financing	945	1,8909	1,890	9,448	4,543	18,716
Diminishing Musharaka financing	4,401	33,865	40,014	147,397	96,252	321,929
Investments	-	-	16,363	25,748	20,350	62,461
Wakala financing	39,919	-	-	-	-	39,919
Ijarah Muntahia Bittamleek	454	1,836	2,196	17,049	24,348	45,883
Property and equipment	-	-	-	-	572	572
Intangibles	-	-	-	-	575	575
Other assets	3,693	678	37	-	2,285	6,693
Total assets – funded	122,128	40,892	63,431	207,663	150,818	584,932
Total assets – non funded (Forwards)	38,500	-	-	-	-	38,500
Total assets – funded and non funded	160,628	40,892	63,431	207,663	150,818	623,432
Future profit cash inflows	1,893	13,933	14,814	60,035	35,526	126,201
Current accounts	25,810	37,926	21,672	-	27,090	112,498
Due to banks	26,550	42,350	-	-	-	68,900
Qard Hasan from Head Office	1,181	-	-	25,000	-	26,181
Customer Wakala term deposit	33,537	58,052	33,051	108,786	19,978	253,404
Other liabilities	8,951	678	37	-	269	9,935
Equity of unrestricted investment accountholders	1,966	3,932	3,932	19,659	9,850	39,339
Owner's equity	-	-	-	-	74,675	74,675
Total liabilities and accountholders & owners' equity	97,995	142,938	58,692	153,445	131,862	584,932
Total liabilities non funded (Forwards)	38,511	-	-	-	-	38,511
Total liabilities funded and non funded; and accountholders & owners' equity	136,506	142,938	58,692	153,445	131,862	623,443
Future profit cash outflows	2,458	5,621	4,015	8,113	-	20,207
Gap	24,122	(102,046)	4,739	54,218	18,956	(11)
Cumulative gap	24,122	(77,924)	(73,185)	(18,967)	(11)	

32. Financial risk management (continued)

Market risk

Impact of COVID-19 on Fair Valuation of Securities

Due to the negative economic outlook from the outbreak of COVID-19 resulting in increased profit rates on instruments in the market and reducing instruments' yields. This has resulted in the reduction of fair valuation of instruments at 31 December 2020 by RO 1,980 thousand (2019: Nil).

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

1. Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

	2020			2019		
	Assets RO'000	Liabilities RO'000	Net RO'000	Assets RO'000	Liabilities RO'000	Net RO'000
US Dollars	**111,491**	**126,115**	**14,624**	73,392	75,582	2,190
Euro	**29**	**1**	**28**	6	1	5
UAE Dirham	**231**	**1**	**230**	193	1	192
Others	**87**	**-**	**87**	53	-	53
Total	**111,838**	**126,117**	**14,969**	73,644	75,584	2,440

2. Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

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

32. Financial risk management (continued)

Market risk (continued)

2. Profit rate risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non-profit bearing RO 000	Total RO 000
31 December 2020								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	14,823	**14,823**
Due from banks and financial institutions	**1.36%**	7,699	-	-	-	-	1,140	**8,839**
Murabaha and other receivables	**5.16%**	4,111	5,698	2,535	9,407	1,520	567	**23,838**
Mudaraba financing	**6.28%**	13,122	-	-	-	-	-	**13,122**
Diminishing Musharaka Financing	**5.73%**	1,892	28,807	34,548	143,898	130,808	-	**339,953**
Investments	**5.07%**	-	-	-	43,844	36,022	-	**79,866**
Wakala financing	**5.93%**	51,892	-	-	-	-	-	**51,892**
Ijara Muntahia Bittamleek	**5.28%**	353	1,869	2,247	17,311	24,435	-	**46,215**
Property and equipment	-	-	-	-	-	-	476	**476**
Intangibles	-	-	-	-	-	-	507	**507**
Other asset	-	-	-	-	-	-	38,991	**38,991**
Total assets		**79,069**	**36,374**	**39,330**	**214,460**	**192,785**	**56,504**	**618,522**
Current accounts	**2.69%**	14,903	26,079	4,903	-	18,629	24,500	**99,014**
Due to banks	**1.92%**	50,000	35,400	15,400	-	-	-	**100,800**
Qard Hasan from Head office	-	-	-	-	-	-	37,005	**37,005**
Customer Wakala term deposit	**4.52%**	239	57,314	74,537	70,821	17,881	-	**220,792**
Other liabilities	-	-	-	-	-	-	28,407	**28,407**
Equity of unrestricted investment accountholders	**2.38%**	53,456	-	-	-	-	27	**53,483**
Owner's equity		-	-	-	-	-	79,021	**79,021**
Equity of accountholders & Total liabilities and shareholders' equity		**118,598**	**118,793**	**104,840**	**70,821**	**36,510**	**168,960**	**618,522**
On-balance sheet gap		**(39,529)**	**(82,419)**	**(65,510)**	**143,639**	**156,275**	**(112,456)**	**-**
Cumulative profit sensitivity gap		**(39,529)**	**(121,948)**	**(187,458)**	**(43,819)**	**112,456**	**-**	**-**

32. Financial risk management (continued)

Market risk (continued)

2. Profit rate risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non-profit bearing RO 000	Total RO 000
31 December 2019								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	43,881	43,881
Due from banks and financial institutions	2.85%	23,098	-	-	-	-	1,647	24,745
Murabaha and other receivables	5.84%	3,494	2,623	2,931	8,021	1,893	596	19,558
Mudaraba financing	5.96%	18,716	-	-	-	-	-	18,716
Diminishing Musharaka Financing	5.71%	4,401	33,865	40,014	147,397	96,252	-	321,929
Investments	5.28%	-	-	6,363	25,748	20,350	-	52,461
Investment at amortised cost	3.50%	-	-	10,000	-	-	-	10,000
Wakala financing	5.62%	39,919	-	-	-	-	-	39,919
Ijara Muntahia Bittamleek	5.30%	454	1,836	2,196	17,049	24,348	-	45,883
Property and equipment	-	-	-	-	-	-	1,147	1,147
Other asset	-	-	-	-	-	-	6,693	6,693
Total assets		90,082	38,324	61,504	198,215	142,843	53,964	584,932
Current accounts	4.30%	18,263	31,960	9,132	9,132	22,829	21,182	112,498
Due to banks	2.75%	26,550	42,350	-	-	-	-	68,900
Qard Hasan from Head office		-	-	-	-	-	26,181	26,181
Customer Wakala deposit	4.30%	33,537	58,052	33,051	108,786	19,978	-	253,404
Other liabilities	-	-	-	-	-	-	9,935	9,935
Equity of unrestricted investment accountholders	2.43%	39,319	-	-	-	-	20	39,339
Owner's equity		-	-	-	-	-	74,675	74,675
Equity of accountholders & Total liabilities and shareholders' equity		117,669	132,362	42,183	117,918	42,807	131,993	584,932
On-balance sheet gap		(27,587)	(94,038)	19,321	80,297	100,036	(78,029)	-
Cumulative profit sensitivity gap		(27,587)	(121,625)	(102,304)	(22,007)	78,029	-	-

32. Financial risk management (continued)

Market risk (continued)

3. Equity risk

Presently Maisarah is not exposed to any equity price risk as window does not have any investment in equity instruments.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

33. Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through equity; and retained earnings; and
- Tier II capital, which includes the impairment provision and PER / IRR.

	2020 RO'000	2019 RO'000
Types of capital		
Tier I capital	**78,839**	74,587
Tier II capital	**5,632**	3,521
Total Regulatory Capital	**84,471**	78,108
Risk weighted assets (RWA)		
Credit risk weighted assets	**501,974**	447,345
Market risk weighted assets	**17,375**	18,625
Operational risk weighted assets	**57,346**	50,340
Total risk weighted assets	**576,695**	516,310
Capital ratios		
Tier I capital ratio (%)	**13.67%**	14.45%
Total capital as a % of RWA	**14.65%**	15.13%

34. Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, Diminishing Musharaka financing and Ijarah Muntahia Bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba, Wakala and Diminishing Musharaka financing; and

(3) Treasury & investments

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

	2020			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	9,311	17,672	3,327	30,310
Other revenues	419	1,184	323	1,926
Total segment operating revenues	9,730	18,856	3,650	32,236
Profit expenses	(2,780)	(10,216)	(1,893)	(14,889)
Net operating income	6,950	8,640	1,757	17,347
Segment cost				
Operating expenses including depreciation	(2,178)	(4,130)	(1,202)	(7,510)
Provision for impairment	(229)	(3,093)	(3)	(3,325)
Bad Debts Written	-	-	-	-
Net profit for the year before tax	4,543	1,417	552	6,512
Segment assets	179,817	342,761	104,617	627,195
Less: Provision for impairment	(672)	(7,871)	(130)	(8,673)
Total segment assets	179,145	334,890	104,487	618,522
Segment liabilities	41,447	306,318	138,253	486,018

34. Segmental information (continued)

	2019			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	9,073	14,778	2,389	26,240
Other revenues	223	1,465	693	2,381
Total segment operating revenues	9,296	16,243	3,082	28,621
Profit expenses	(1,777)	(10,566)	(1,479)	(13,822)
Net operating income	7,519	5,677	1,603	14,799
Segment cost				
Operating expenses including depreciation	(3,676)	(2,446)	(970)	(7,092)
Provision for impairment	(58)	(737)	61	(734)
Bad Debts Written	(3)	-	-	(3)
Net profit for the year before tax	3,782	2,494	694	6,970
Segment assets	175,778	282,474	132,286	590,538
Less: Provision for impairment	(442)	(5,037)	(127)	(5,606)
Total segment assets	175,336	277,437	132,159	584,932
Segment liabilities	25,502	349,808	95,608	470,918

35. Comparative figures

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

1. Separate classification of software as intangibles:

The software cost and accumulated depreciation were previously presented under property and equipment amounting to RO 1,651 thousand and RO 1,076 thousand respectively. These are currently reclassified and presented as a separate line item in the financial statements.

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